

## IMPORTANT NOTICE

**You must read the following notice before continuing:** The following notice applies to the attached prospectus (the "Prospectus") whether received by e-mail, accessed from an internet page or otherwise received as a result of electronic communication and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Prospectus. In reading, accessing or making other use of the Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Prospectus, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

**Confirmation of Your Representation:** In order to be eligible to review this Prospectus or to make an investment decision with respect to the Notes, investors must not be a US person (within the meaning of Regulation S under the US Securities Act of 1933 (the "Securities Act") (a "US person")). By accepting the e-mail and accessing the Prospectus, you shall be deemed to have represented to Lehman Brothers International (Europe) and Goldman Sachs International (the "Lead Managers"), being the senders of the attached, that (i) you are not a US person; (ii) the electronic mail (or e-mail) address to which it has been delivered is not located in the United States of America (including the States and the District of Columbia) or its possessions, including Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands and (iii) you are a person to whom the Prospectus may be communicated or distributed lawfully in the jurisdiction in which you are located and in accordance with each of the restrictions set out in the Prospectus. You may not, nor are you authorised to, deliver the Prospectus to any other person.

The Prospectus has been sent to you in electronic form. You consent to delivery by electronic transmission and are reminded that whilst the information contained in this electronic copy has been formatted in a manner which should exactly replicate the printed Prospectus, physical appearance may differ and other discrepancies may occur for various reasons, including electronic communication difficulties or particular user equipment. The user of this electronic copy assumes the risk of any discrepancies between it and the printed version of the Prospectus which is available to you on request from Lehman Brothers International (Europe) and Goldman Sachs International. None of Lehman Brothers International (Europe), Goldman Sachs International, Avondale Securities S.A. (the "Issuer"), any of their respective affiliates, any person who controls any of them and any of the representatives, directors, officers, employees and agents of any such person accepts any liability or responsibility whatsoever in respect of any difference between this electronic copy and the printed Prospectus.

Nothing in this electronic transmission constitutes an offer of, or an invitation to acquire, or the solicitation of an offer to purchase or subscribe for any of the Notes, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful.

This Prospectus may not be communicated or distributed to persons other than persons to whom it may be communicated or distributed lawfully without any further action on the part of any person and in accordance with all applicable securities laws.

**AVONDALE SECURITIES S.A.**

(a *société anonyme* incorporated under the laws of Luxembourg)

**€380,000,000 Class A-1 Floating Rate Emergence Offset Notes due 2032**  
**€20,000,000 Class A-2 Floating Rate Emergence Offset Notes due 2032**

Issue Price of the Class A-1 Emergence Offset Notes: 100 per cent.

Issue Price of the Class A-2 Emergence Offset Notes: 100 per cent.

The Class A-1 Floating Rate Emergence Offset Notes will be unconditionally and irrevocably guaranteed in relation to Scheduled Interest and Ultimate Principal by

**Ambac Assurance UK Limited**

(a private limited company incorporated under the laws of England and Wales under company number 3248674)

Avondale Securities S.A., a *société anonyme* incorporated under the laws of Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B-131873 (the "Issuer"), will issue €380,000,000 Class A-1 Floating Rate Emergence Offset Notes due 2032 (the "Class A-1 Notes") and €20,000,000 Class A-2 Floating Rate Emergence Offset Notes due 2032 (the "Class A-2 Notes", and, together with the Class A-1 Notes, the "Notes"). The Notes will be constituted by and issued pursuant to a trust deed (the "Trust Deed") dated on or about 25 October 2007 (the "Closing Date") between (*inter alios*) the Issuer, BNY Corporate Trustee Services Limited as note trustee (the "Note Trustee") and Ambac Assurance UK Limited ("Ambac"). The terms and conditions of the Notes (the "Conditions") are set out herein under "Terms and Conditions of the Notes".

The Class A-1 Notes will bear interest at a floating rate equal to Euro Interbank Offered Rate for deposits in Euro for three months or, in respect of the first Interest Period, the linear interpolation of the floating rate equal to Euro Interbank Offered Rate for deposits in Euro for three months and four months ("EURIBOR") plus 0.75 per cent. *per annum*. The Class A-2 Notes will bear interest at EURIBOR plus 3.09 per cent. *per annum*. Interest on the Notes will only be payable if sufficient funds are available for this purpose. Interest on the Notes will accrue from the Closing Date and be payable quarterly in arrears on the 30<sup>th</sup> day of January, April, July and October of each year (or, if any such date is not a Business Day, the next following Business Day or, if such day would fall in the next calendar month, the immediately preceding Business Day) (each an "Interest Payment Date"). The first Interest Payment Date will be on 30 January 2008 (or if such day is not a Business Day, the next following Business Day).

The Class A-1 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 (the "Ambac Financial Guarantee") to be issued by Ambac as set out in "Form of Ambac Financial Guarantee" below. The Ambac Financial Guarantee has not been and will not be executed as at the date of this Prospectus but is to be executed prior to the issue of the Class A-1 Notes. Listing of the Class A-1 Notes on the Official List of the Irish Stock Exchange Limited (the "Irish Stock Exchange") and admission of the Class A-1 Notes to trading on its regulated market will be granted subject to the execution by Ambac of the Ambac Financial Guarantee. The Class A-2 Notes will not be guaranteed. 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 principal source of funds for payment of principal and interest on the Notes will be payments of interest on and repayment of the principal of a loan made by the Issuer to BOI VIF Funding (No. 1) LP, a limited partnership established under the laws of England and Wales (the "Limited Partnership"), and distributions made to the Issuer as holder of a limited partnership interest in the Limited Partnership. The terms and conditions of the loan and of the Issuer's interest in the Limited Partnership are set out herein under "Terms and Conditions of the Insurance-linked Loan and Savings-linked Limited Partnership Interest". The Limited Partnership will have the benefit of a support agreement (the "Support Agreement") by The Governor and Company of the Bank of Ireland ("Bank of Ireland") in favour of, *inter alios*, the Limited Partnership. Distributions on the interest of the Issuer in the Limited Partnership and payments of interest and repayments of principal on the loan made by the Issuer to the Limited Partnership will be determined predominantly by reference to the performance of a reference index relating to surplus on a portfolio of unit-linked life insurance and unit-linked pension contracts written or acquired by New Ireland Assurance Company plc, a public limited company wholly owned by Bank of Ireland and trading under the name Bank of Ireland Life ("BoI Life"). The Issuer's obligations are substantially dependent on Bank of Ireland and its affiliates performing their obligations under agreements to which the Limited Partnership is a party (including the Support Agreement and certain deposits with Bank of Ireland); the Issuer has no security over such agreements or deposits.

Noteholders should note that in the event of a winding up of Bank of Ireland, the rights which any party to a Transaction Document (as defined herein) (other than Bank of Ireland) has, whether directly as party to a Transaction Document to which Bank of Ireland is a party or pursuant to an action in respect of this Prospectus, or indirectly through any investment of the Issuer in the Limited Partnership, are unsecured claims against Bank of Ireland and do not rank ahead of depositors in Bank of Ireland.

**Lehman Brothers**  
Structuring Advisor and Joint Bookrunner

**Goldman Sachs International**  
Structuring Advisor and Joint Bookrunner

The date of this Prospectus is 24 October 2007.

Certain payments to be made by the Limited Partnership in respect of the IL Loan and the SLLPI are made by reference to the surplus or embedded value (each as calculated as described in this Prospectus) on the Dynamic Defined Block, which is a portfolio of insurance contracts of BoI Life. None of the parties to the Transaction Documents (other than BoI Life or Bank of Ireland) have any rights under the Transaction Documents or the transactions contemplated thereby to payment of such surplus or embedded value of BoI Life; such calculations constitute an index by reference to which payments are determined and not a legal or beneficial interest in such surplus or embedded value.

It is a condition to the issuance of the Notes that the Class A-1 Notes be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P", and together with Moody's, the "Rating Agencies") and that the Class A-2 Notes be rated "Baa1" by Moody's and "A-" by S&P. 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 applicable Rating Agency.

Application has been made to the Irish Financial Services Regulatory Authority (the "Financial Regulator for Ireland"), as competent authority under Directive 2003/71/EC (the "Prospectus Directive") for the approval of this prospectus. Application has been made to the Irish Stock Exchange Limited (the "Irish Stock Exchange") for the admittance of the Notes to the Official List of the Irish Stock Exchange and trading on its regulated market. This document constitutes a prospectus (the "Prospectus") for the purposes of the Prospectus Directive. It is not intended to be a prospectus within the meaning of the Securities Act (as defined below).

The Notes (and, in respect of the Class A-1 Notes, the guarantee thereon) being offered hereby have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any state of the United States or any other relevant jurisdiction. The Notes may not be offered or sold within the United States or for the benefit or account of, or to, any US persons (as defined in Regulation S ("Regulation S") under the Securities Act (a "US Person") except in certain transactions permitted by the Securities Act.

The Notes are limited recourse debt obligations of the Issuer, secured pursuant to the Issuer Deed of Charge solely by various charges and assignments by way of security over the Issuer Security granted by the Issuer to the Security Trustee for the benefit of the Secured Creditors (as defined below).

The Notes are offered by the Issuer through Lehman Brothers International (Europe) and Goldman Sachs International (the "Lead Managers"). Any such Notes to be offered to a prospective purchaser will be offered to such prospective purchaser by the Lead Managers in individually negotiated transactions at varying prices to be determined at the time of sale in compliance with the selling restrictions contained herein. The Notes are offered when, as and if issued by the Issuer, subject to prior sale or withdrawal, cancellation or modification of the offer without notice. Delivery of the Notes will be made on the Closing Date, against payment in immediately available funds. The Index of Defined Terms appearing at the end of this Prospectus contains references to the pages in this Prospectus where a defined term is used.

See "Risk Factors" below for a description of certain factors that should be considered by prospective investors in connection with an investment in the Notes offered hereby.

The Notes (and, in respect of the Class A-1 Notes, the guarantee thereon) of each Class will be sold in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act") and will initially be represented by beneficial interests in one or more permanent global certificates of such Class in fully registered form, without interest coupons or principal receipts (each a "Global Note" and, together, the "Global Notes"), which will be registered on or about the Closing Date with a nominee for The Bank of New York Depository (Nominees) Limited as common depository (the "Common Depository") for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Ownership interests in the Global Notes will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued in exchange for Global Notes only in limited circumstances.

The information set out in the sections of this document describing clearing arrangements is subject to any change or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream, Luxembourg, in each case as currently in effect. The information in such sections concerning these clearing systems has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy of such information. So far as the Issuer is aware and is able to ascertain from publicly available information, no facts have been omitted which would render the reproduced information misleading. Any purchaser wishing to use the facilities of any of the clearing systems should confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. The Issuer will not be responsible or liable for any aspect of the records relating to, or payments made on account of, interests in the Notes held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such interests.

**THE ASSETS OF THE ISSUER ARE THE SOLE SOURCE OF PAYMENTS ON THE NOTES. THE NOTES ARE SOLELY OBLIGATIONS OF THE ISSUER AND WILL NOT BE GUARANTEED BY OR BE THE RESPONSIBILITY OF ANY OTHER PARTY OTHER THAN AMBAC IN RESPECT OF SCHEDULED INTEREST AND ULTIMATE PRINCIPAL (AS DEFINED IN THE AMBAC FINANCIAL GUARANTEE) ON THE CLASS A-1 NOTES IN ACCORDANCE WITH THE TERMS AND CONDITIONS SET FORTH IN THE AMBAC FINANCIAL GUARANTEE. THE NOTES DO NOT REPRESENT OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE LEAD MANAGERS, AMBAC (SAVE IN RELATION TO THE PAYMENT OF SCHEDULED INTEREST AND ULTIMATE PRINCIPAL (AS DEFINED IN THE AMBAC FINANCIAL GUARANTEE) ON THE CLASS A-1 NOTES IN ACCORDANCE WITH THE TERMS AND CONDITIONS SET FORTH IN THE AMBAC FINANCIAL GUARANTEE), THE LIMITED PARTNERSHIP, THE DEPOSIT BANK, THE GENERAL PARTNER, BANK OF IRELAND, BoI LIFE, WATSON WYATT, THE ISSUER CORPORATE SERVICES PROVIDER, THE ACCOUNT BANK, THE PAYING AGENTS, THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE ISSUER CASH MANAGER, THE LIQUIDITY FACILITY PROVIDER, THE GP ADMINISTRATOR OR ANY OF THEIR RESPECTIVE AFFILIATES OR ANY OTHER THIRD PARTY.**

Save for the information contained in the sub-sections headed "Introduction", "Summary of the Relevance of the Dynamic Defined Block and of the distinction between the Insurance Block and the Savings Block", "The Dynamic Defined Block", "Summary of the Unit-linked Life Assurance Business", "Summary of the Unit-linked Pensions Business" and "New Business" of the section headed "Description of the Dynamic Defined Block" and the sections headed "The Base Case", "Stress Scenarios", "Actuaries' Report", "Form of Ambac Financial Guarantee", "Bank of Ireland", "Bank of Ireland Life", "The General Partner", "Ambac Assurance UK Limited", "Ambac Assurance Corporation", "Relationship between Ambac Assurance UK Limited and Ambac Assurance Corporation, Appendix 1 ("Financial Statements of Ambac") and Appendix 2 ("Summary of Policy Products in the Dynamic Defined Block"), the Issuer accepts responsibility for the information contained in this document and to the best of the knowledge and belief of the Issuer (who has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. The delivery of this document

at any time does not imply that the information contained in this document is correct at any time subsequent to the date of this document.

Ambac accepts responsibility for the information contained in the section headed "*Form of Ambac Financial Guarantee*", "*Ambac Assurance UK Limited*", "*Ambac Assurance Corporation*", "*Relationship between Ambac Assurance UK Limited and Ambac Assurance Corporation*" and Appendix 1 "*Financial Statements of Ambac*" (together, the "**Ambac Information**"). To the best of the knowledge and belief of Ambac (who has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. 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 Prospectus (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 Prospectus 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).

Bank of Ireland accepts responsibility for the information contained in the sub-sections headed "*Introduction*", "*Summary of the Relevance of the Dynamic Defined Block and of the distinction between the Insurance Block and the Savings Block*", "*The Dynamic Defined Block*", "*Summary of the Unit-linked Life Assurance Business*", "*Summary of the Unit-linked Pensions Business*" and "*New Business*" of the section headed "*Description of the Dynamic Defined Block*", the sections headed "*The Base Case*", "*Stress Scenarios*", "*Bank of Ireland*", "*Bank of Ireland Life*", "*The General Partner*" and Appendix 2 ("*Summary of Policy Products in the Dynamic Defined Block*") (the "**Bank of Ireland Information**"). To the best of the knowledge and belief of Bank of Ireland (who has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Watson Wyatt Limited ("**Watson Wyatt**") accepts responsibility for the information contained in the section headed "*Actuaries' Report*". To the best of the knowledge and belief of Watson Wyatt (who has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. Neither Watson Wyatt nor any of its affiliates accepts any responsibility for the accuracy and completeness of any other information contained in this document.

Save for the sections described immediately above in respect of Ambac, Bank of Ireland, BoI Life, the General Partner and Watson Wyatt, none of the Lead Managers, Ambac, the Note Trustee, the Security Trustee, the Limited Partnership, the Deposit Bank, the General Partner, Bank of Ireland, BoI Life, Watson Wyatt, the Agents, the Account Bank, the Issuer Corporate Services Provider, the Liquidity Facility Provider, the Issuer Cash Manager, the GP Administrator or any of their respective affiliates have separately verified the information contained in this document and accordingly none of the Lead Managers, Ambac, the Note Trustee, the Security Trustee, the Limited Partnership, the Deposit Bank, the General Partner, Bank of Ireland, BoI Life, Watson Wyatt, the Agents, the Account Bank, the Issuer Corporate Services Provider, the Liquidity Facility Provider, the Issuer Cash Manager, the GP Administrator, nor any of their respective affiliates makes any representation, recommendation, undertaking or warranty, express or implied, regarding the accuracy, adequacy, reasonableness or completeness of the information contained in this document or any other information supplied in connection with the sale of the Notes except, in the case of Ambac, Watson Wyatt and Bank of Ireland, for such information as is, in each case, referred to above. Each person receiving this document or any other information supplied in connection with the sale of the Notes acknowledges that such person has not relied on the Lead Managers, Ambac (other than, where such person is a Class A-1 Noteholder, in respect of the Ambac Information), Bank of Ireland (other than in respect of the Bank of Ireland Information), BoI Life, the Note Trustee, the Security Trustee, the

Liquidity Facility Provider, Watson Wyatt (other than in respect of the section headed "*Actuaries' Report*"), the Issuer Cash Manager, the Agents, the Account Bank, the Issuer Corporate Services Provider, the GP Administrator or any of their respective affiliates in connection with the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors that may be relevant to it in connection with such investment.

It should be remembered that the price of securities and the income from them can go down as well as up.

Neither this Prospectus nor any other information supplied in connection with any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Lead Managers, Ambac, the Limited Partnership, the Deposit Bank, the General Partner, Bank of Ireland, BoI Life, Watson Wyatt, the Agents, the Account Bank, the Issuer Corporate Services Provider, the Issuer Cash Manager, the Liquidity Facility Provider, the Note Trustee or the Security Trustee that any recipient of this Prospectus or any other information supplied in connection with any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Lead Managers, Ambac, the Limited Partnership, the Deposit Bank, the General Partner, Bank of Ireland, BoI Life, Watson Wyatt, the Agents, the Account Bank, the Issuer Corporate Services Provider, the Issuer Cash Manager, the Liquidity Facility Provider, the Note Trustee or the Security Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes will in any circumstances imply that the information contained herein is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

None of the Lead Managers, Ambac, the Note Trustee, the Security Trustee, the Limited Partnership, the Deposit Bank, the General Partner, Bank of Ireland, BoI Life, Watson Wyatt, the Agents, the Account Bank, the Issuer Cash Manager, the Liquidity Facility Provider or the Issuer Corporate Services Provider undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this document or to advise any investor or potential investor in the Notes of any information coming to the attention of the Lead Managers, Ambac, the Note Trustee, the Security Trustee, the Limited Partnership, the Deposit Bank, the General Partner, Bank of Ireland, BoI Life, Watson Wyatt, the Agents, the Account Bank or the Issuer Corporate Services Provider which is not included in this document.

This Prospectus contains summaries believed to be accurate with respect to certain documents. The summaries do not purport to be complete and are qualified in their entirety by reference to such documents. Copies of documents referred to herein will be made available to Noteholders as set out in "*General Information*".

The Ambac Financial Guarantee has not been and will not be executed as at the date of this Prospectus. Listing of the Class A-1 Notes on the Official List of the Irish Stock Exchange and admission of the Class A-1 Notes to trading on its regulated market is expected to be granted subject to the execution by Ambac of the Ambac Financial Guarantee.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Notes and does not constitute an offer to sell or a solicitation of an offer to buy any of the Notes to any person in any jurisdiction in which it is unlawful to make such an offer or solicitation to such person.

The distribution of this document and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer and the Lead Managers 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 and issue of this document and other documents, see "*Subscription and Sale*" below.

Each prospective offeree or purchaser of the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this document, and must obtain any consent, approval or permission required under any regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer and the Lead Managers will have any responsibility therefor. This document does not constitute, and may not be used for the purposes of, an offer or solicitation by any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation and no action is being taken to permit an offering of the Notes or the distribution of this document in any jurisdiction where such action is required.

The Notes have not been approved or disapproved by the US Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other US or non-US regulatory authority, and none of the foregoing authorities has passed upon or endorsed the merits of any Notes or the accuracy or the adequacy of this Prospectus. Any representation to the contrary is a criminal offence.

If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, lawyer, accountant or other financial adviser.

In connection with the issue and sale of the Notes, no person is authorised to give any information or to make any representation not contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer or the Lead Managers or any other party. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

The Issuer makes this offering subject to the terms described in this document. The Lead Managers and certain of their respective related entities may acquire, for their own accounts, all or a portion of the Notes or of one or more Classes of Notes.

The Issuer and the Lead Managers make no representation to any prospective investor or purchaser of the Notes regarding the legality of investment therein by such prospective investor or purchaser under applicable legal investment or similar laws or regulations. The contents of this document should not be construed as providing legal, business, accounting, actuarial, regulatory, investment or tax advice. Each prospective investor should consult its own legal, business, accounting, actuarial, regulatory, investment and tax advisors prior to making a decision to invest in the Notes. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

In this document, unless otherwise specified, references to "€", "euro" and "Euro" are to the single 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 of European Union and the Treaty of Amsterdam and as further amended from time to time.

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Financial Regulator for Ireland. This Issuer is not regulated by the Financial Regulator for Ireland by virtue of the issue of the Notes.

In connection with the issue of the Notes, Lehman Brothers International (Europe) or Goldman Sachs International (the "Stabilising Managers") (or persons acting on behalf of the Stabilising Managers) may over-allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Managers (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Closing Date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment will be conducted in accordance with all applicable laws and rules.

**IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER, THE TERMS OF THE NOTES AND THE OFFERING THEREOF DESCRIBED HEREIN, INCLUDING THE MERITS AND RISKS INVOLVED AND MUST NOT RELY ON INFORMATION PROVIDED BY OR STATEMENTS MADE BY THE LEAD MANAGERS, AMBAC, THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE LIMITED PARTNERSHIP, THE DEPOSIT BANK, THE GENERAL PARTNER, BANK OF IRELAND, BoI LIFE, WATSON WYATT, THE AGENTS, THE ACCOUNT BANK OR THE ISSUER CORPORATE SERVICES PROVIDER OR THEIR RESPECTIVE AFFILIATES.**

It is expected that prospective investors will conduct an independent investigation of the risks posed by an investment in the Notes. The investors should contact one of the Lead Managers should they have any questions about this offering or if they require additional information to verify the information contained in this document.

#### **NOTICE TO UNITED KINGDOM INVESTORS**

The Notes may not be offered or sold to persons in the United Kingdom except to persons who are authorised and regulated by the Financial Services Authority or to persons who have professional experience in matters of investment within the meaning of Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"). This Prospectus and any other communication in connection with the offering and issuance of the Notes is intended for and directed at and may only be issued or passed on to a person authorised and regulated by the Financial Services Authority or to a person of a kind described in Articles 19 or 49(2) of the Order or a person to whom this Prospectus or any other such communication may otherwise lawfully be issued or passed on (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.



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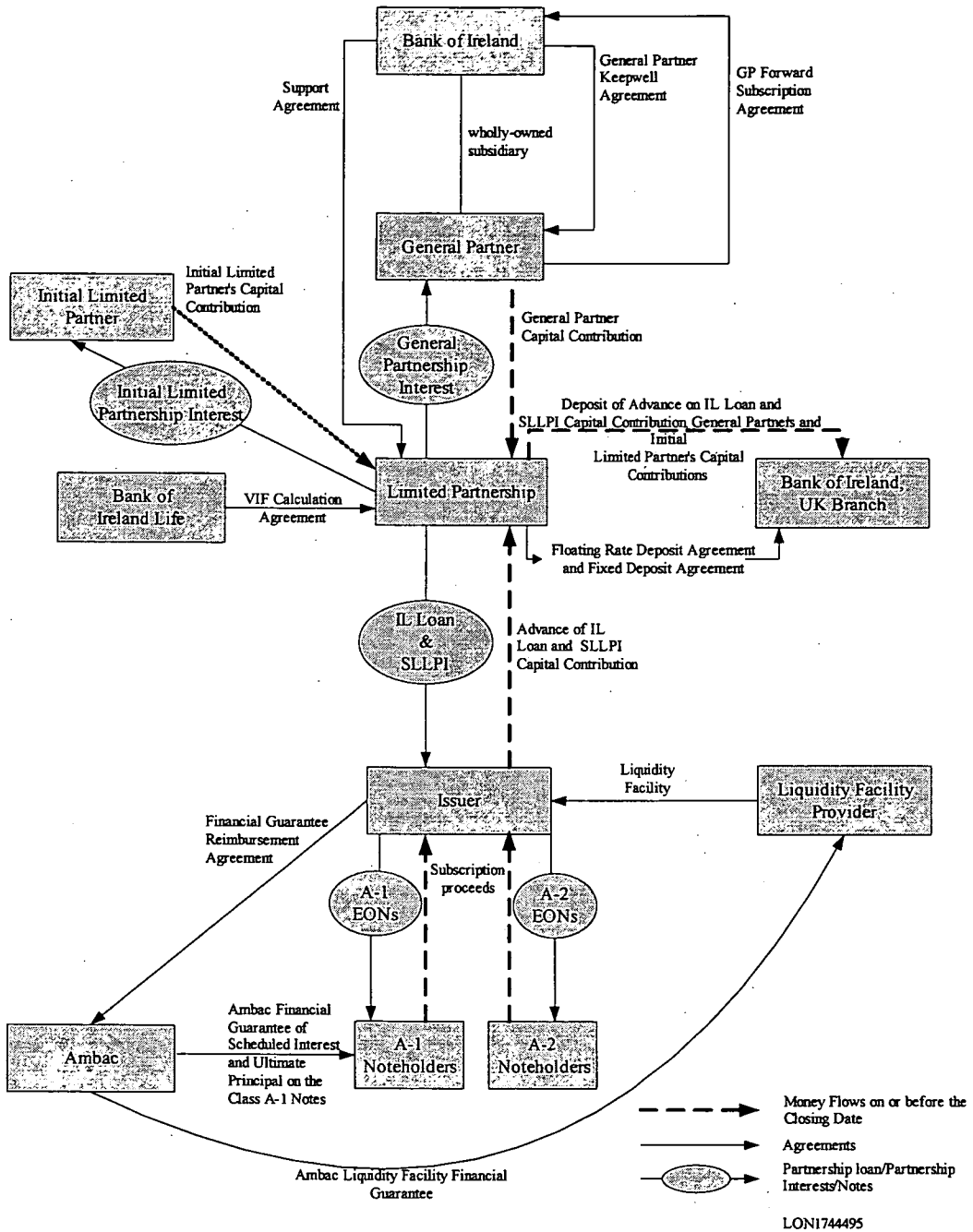
## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents which have previously been published (or are published simultaneously with this Prospectus) and have been approved by the Irish Stock Exchange or filed with it shall be deemed to be incorporated in, and to form part of, this Prospectus: the audited consolidated annual financial statements for the financial years ended 31st March 2006 and 31st March 2007 of Bank of Ireland.

Copies of documents incorporated by reference in this Prospectus can be obtained from Bank of Ireland and the Paying Agents. Written requests for such documents should be directed to Bank of Ireland or the Paying Agents at the offices set out at the end of this Prospectus.

## TRANSACTION DIAGRAM

The following diagram does not purport to be complete and is qualified in its entirety by the more detailed information contained elsewhere in this Prospectus, including, without limitation, the Conditions and the Transaction Documents.



## TRANSACTION SUMMARY

*This Summary of Terms does not include all relevant information relating to the Notes described herein, particularly with respect to the risks and special considerations involved with an investment in such Notes, and is qualified in its entirety by reference to the detailed information appearing elsewhere in this document or incorporated by reference herein. Prospective investors are advised to carefully read, and should rely solely on, the detailed information appearing elsewhere in this document or incorporated by reference herein in making their investment decision.*

### OVERVIEW

The following is a high level overview of the transaction and is qualified in its entirety by the more detailed terms of this Prospectus.

The Issuer will use the €400,000,000 proceeds of the Notes to make an advance of €400,000,000 (the “**IL Loan**”) to the Limited Partnership and will use €1,000 of its capital to acquire a limited partnership interest (the “**SLLPI**”) in the Limited Partnership. The Limited Partnership will receive €40,000,000 from a member of the Bank of Ireland Group on or before the Closing Date, having previously received €10,000 as capital contributions from each of the Initial General Partner and the Initial Limited Partner.

The Limited Partnership will apply the amounts received in its business by, initially, making (i) a Floating Rate Deposit, paying interest at EURIBOR on the same day as the Interest Payment Dates on the Notes, of €400,000,000 with Bank of Ireland and (ii) a Fixed Rate Deposit, with no amortisation profile, of €40,021,000 with Bank of Ireland. The Limited Partnership may change its investments from time to time subject to the terms of the Limited Partnership Agreement and the Support Agreement. The Issuer has no security over the Deposits (or any replacement investments) or any other assets of the Limited Partnership.

The amounts received on the Deposits (or any replacement investments of the Limited Partnership) will be applied, to the extent required, in paying amounts due under the IL Loan and the SLLPI. Prior to a Downgrade Direction Transfer Date, Bank of Ireland is required to ensure that the Limited Partnership has sufficient funds to enable it to pay amounts due under the IL Loan and the SLLPI. If a Downgrade Direction Transfer Date occurs, Bank of Ireland’s support is more restricted - broadly, to what should have been received had the investments of the Limited Partnership remained the Floating Rate Deposit and the Fixed Rate Deposit, and the obligations in respect of the IL Loan and SLLPI will be reduced by any deficiency (see the definition of “Replacement Deposit Bank Deficiency” below).

The amount and timing of certain components of interest on, and the amount and timing of repayment of principal of, the IL Loan and the amount and timing of distributions under the SLLPI are referenced to, *inter alia*, the emergence of surplus and the projected value-in-force of a block of policies originated by BoI Life (the “**Dynamic Defined Block**”) (which effectively operates as a form of index). The operation of these provisions is complex and is described in this Prospectus.

Scheduled Interest and Ultimate Principal on the Class A-1 Notes are guaranteed by Ambac pursuant to the Ambac Financial Guarantee.

### THE PARTIES

**Issuer:**

Avondale Securities S.A., a *société anonyme* incorporated under the laws of Luxembourg and registered with the Luxembourg register of Commerce and Companies under number B-131873 as a securitisation company under the law of 22

March 2004 on securitisation having its registered office at 7 Val Ste Croix, L-1371 Luxembourg.

**Ambac:**

Ambac Assurance UK Limited, a private limited company incorporated under the laws of England and Wales having its registered office at Level 7, 6 Broadgate, London EC2M 2QS, United Kingdom. Ambac has permissions pursuant to the Financial Services and Markets Act 2000 to carry on the regulated activities of effecting and carrying out contracts of insurance relating to credit, miscellaneous financial loss and suretyship, and may accordingly issue financial guarantees in the United Kingdom. At the date of this Prospectus, Ambac's financial strength is rated "Aaa" by Moody's and "AAA" by S&P. Ambac will guarantee in favour of the Note Trustee on behalf of the Class A-1 Noteholders the payment by the Issuer of Scheduled Interest and Ultimate Principal (as defined in the Ambac Financial Guarantee) on the Class A-1 Notes in accordance with the terms and conditions set forth in the Ambac Financial Guarantee and will also provide a separate financial guarantee in respect of the Liquidity Facility Agreement.

**Limited Partnership:**

BOI VIF Funding (No. 1) LP, a limited partnership registered in England in accordance with the provisions of the Limited Partnerships Act 1907 on 14 September 2007, having its principal place of business on registration at 36 Queen Street, London EC4R 1HJ (and having its principal place of business as at the date hereof at c/o M&C Corporate Services Limited, P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands), and whose initial general partner was Openmulti Limited and whose general partner on the date of this Prospectus is Vida Pura Limited (the "General Partner") and whose limited partners will, upon the purchase of the SLLPI by the Issuer, include the Issuer.

**General Partner:**

Vida Pura Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands having its registered office at P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The General Partner is a wholly-owned subsidiary of Bank of Ireland.

**Initial General Partner:**

Openmulti Limited, a private limited company incorporated under the laws of England and Wales having its registered office at 36 Queen Street, London EC4R 1HJ, United Kingdom. The Initial General Partner is a wholly-owned subsidiary of Bank of Ireland.

<b>Initial Limited Partner:</b>	College Green Limited, a private limited company incorporated under the laws of England and Wales having its registered office at 36 Queen Street, London EC4R 1HJ, United Kingdom. The Initial Limited Partner is a wholly-owned subsidiary of Bank of Ireland.
<b>Bank of Ireland:</b>	The Governor and Company of the Bank of Ireland, established as a chartered corporation by an Act of the Irish Parliament of 1781/2 and by a Royal Charter of King George III in 1783 having its principal place of business at Lower Baggot Street, Dublin 2, Ireland.
<b>BoI Life:</b>	New Ireland Assurance Company plc, a public limited company incorporated under the laws of Ireland having its registered office at 11/12 Dawson Street, Dublin 2, Ireland, trading under the name Bank of Ireland Life. BoI Life is a wholly-owned subsidiary of Bank of Ireland.
<b>Deposit Bank:</b>	At the Closing Date, Bank of Ireland, subject to replacement in certain circumstances: see " <i>Replacement of Deposit Bank</i> " below.
<b>VIF Calculation Agent:</b>	BoI Life.
<b>Relevant Person:</b>	Watson Wyatt Limited, acting through its office at Watson House, London Road, Reigate, Surrey RH2 9PQ, United Kingdom. Watson Wyatt actuaries are fellows of the Institute of Actuaries.
<b>Support Provider and General Partner Keepwell Provider:</b>	Bank of Ireland.
<b>GP Administrator</b>	ICG Management Limited, acting through its office at 3 <sup>rd</sup> Floor Zephyr House, 122 Mary Street, P.O. Box 715, KY1-1107, Grand Cayman, Cayman Islands.
<b>Liquidity Facility Provider:</b>	HSBC Bank plc, being a bank which has the Liquidity Required Ratings.
<b>Issuer Expenses Loan Provider:</b>	Bank of Ireland.
<b>Note Trustee:</b>	BNY Corporate Trustee Services Limited, whose principal place of business is One Canada Square, London E14 5AL, United Kingdom.
<b>Registrar:</b>	The Bank of New York (Luxembourg) S.A. of Aerogolf Center, 1A, Hoehenhof, L-1736 Senningerberg, Luxembourg.
<b>Security Trustee:</b>	BNY Corporate Trustee Services Limited, whose principal place of business is One Canada Square, London E14 5AL, United Kingdom.

**Account Bank,  
Principal Paying Agent and  
Agent Bank:**

The Bank of New York, a New York banking corporation, acting through its London branch whose principal place of business is at One Canada Square, London E14 5AL, United Kingdom.

**Irish Paying Agent:**

BNY Financial Services Plc, acting through its office at 70 Sir John Rogerson's Quay, Dublin 2, Ireland.

**Issuer Cash Manager:**

The Bank of New York, acting through its office at 48th Floor, One Canada Square, London E14 5AL, United Kingdom.

**Irish Listing Agent:**

J&E Davy, acting through its office at 49 Dawson Street, Dublin 2, Ireland.

**Issuer Corporate Services Provider:**

Structured Finance Management (Luxembourg) SA, acting through its office at 7, Val Ste Croix, L-1371 Luxembourg.

**Transaction Documents:**

“**Transaction Documents**” means the Trust Deed, the Notes, the Ambac Financial Guarantee, the Ambac Liquidity Facility Financial Guarantee, the Ambac Fee Letter, the Financial Guarantee Reimbursement Agreement, the Agency Agreement, the Calculation Agreement, the Cash Management Agreement, the Deposit Agreements, the Issuer Deed of Charge, the Limited Partnership Agreement, the Security Power of Attorney, the Subscription Agreement, the Support Agreement, the Investment Powers of Attorney the General Partner Keepwell Agreement, the Master Definitions and Framework Deed, the Account Bank Agreement, the Liquidity Facility Agreement, the Issuer Expenses Loan Agreement and the Issuer Corporate Services Agreement and any other document which is designated as a “Transaction Document” with the consent of the Controlling Creditor and the Issuer.



## THE NOTES

*References to "Conditions" are to Terms and Conditions of the Notes set out on page 165 below.*

**Amount of Notes:** €380,000,000 Class A-1 Floating Rate Emergence Offset Notes due 2032 (the "Class A-1 Notes").

€20,000,000 Class A-2 Floating Rate Emergence Offset Notes due 2032 (the "Class A-2 Notes" and, together with any Class A-1 Notes, the "Notes").

The Notes will be constituted by and issued pursuant to a trust deed (the "Trust Deed") between, among others, the Issuer, Ambac and the Note Trustee to be dated on or about 25 October 2007 (the "Closing Date").

**Plan of Distribution:** The Notes are being offered in reliance on Regulation S under the Securities Act.

**Form of the Notes:** The Notes of each Class are initially represented by one or more global notes in registered form of such Class (each a "Global Note" and together, the "Global Notes"). The Global Notes will be registered in the name of Bank of New York Depository (Nominees) Limited as nominee for The Bank of New York as the common depository (the "Common Depository") for Euroclear and Clearstream, Luxembourg on the Closing Date.

Ownership of beneficial interest in the Global Notes will be limited to persons that have accounts with Euroclear or Clearstream, Luxembourg ("participants") or persons that hold interests in the Global Notes through participants ("indirect participants") that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly.

Euroclear and Clearstream, Luxembourg, as applicable, will credit participants' accounts with the respective amount of Notes beneficially owned by participants on each of their respective book-entry registration and transfer systems ("Book-Entry Interests").

Except in the limited circumstances described in Condition 2(d), the Notes will not be available in definitive form. Definitive Notes will be issued in registered form only.

**Denominations of the Notes:** The Class A-1 Notes and the Class A-2 Notes will be issued in minimum denominations of €100,000 and above €100,000 in increments of €1,000 up to and including €199,000.

**Status of Notes:**

The Notes are limited recourse debt obligations of the Issuer, secured pursuant to the Issuer Deed of Charge solely by various charges and assignments by way of security over the Issuer Security granted by the Issuer to the Security Trustee for the benefit of the Secured Creditors.

**Ranking of Notes and Subordination:**

The Notes will all have the benefit of the Issuer Security. Under the Pre-Enforcement Priority of Payments, interest in respect of the Class A-1 Notes (other than interest accrued on unpaid interest which will rank junior to interest in respect of the Class A-2 Notes but senior to principal on the Class A-2 Notes) will rank senior in right of payment to payments of interest and principal in respect of the Class A-2 Notes and repayment of principal in respect of the Class A-1 Notes will rank senior in right of payment to the repayment of principal in respect of the Class A-2 Notes, but principal will be payable on the Class A-1 Notes after interest (other than interest accrued on unpaid interest) on the Class A-1 Notes and (except on the Maturity Date) Class A-2 Notes has been paid. Under the Post-Enforcement Priority of Payments, interest and principal on the Class A-1 Notes will be payable before interest and principal on the Class A-2 Notes.

The Class A-1 Notes rank *pari passu* and rateably without preference or priority among themselves. The Class A-2 Notes will rank *pari passu* and rateably without preference or priority among themselves. See further Condition 3 (*Status, Priority and Security*).

The Issuer Deed of Charge will contain provisions requiring the Security Trustee (except where expressly provided otherwise) to have regard to the interests of the Secured Creditors as a whole as regards all powers, trusts, authorities, duties and discretions of the Security Trustee but requiring the Security Trustee to have regard only to the interests of the Class A-1 Noteholders if, in the opinion of the Security Trustee, there is a conflict between the interests of the Class A-1 Noteholders, the Class A-2 Noteholders and the other Secured Creditors, provided that as long as Ambac is the Controlling Creditor and other than in respect of a Basic Terms Modification or Reserved Matter (as to each of which Ambac will have a right of consent as a party to the relevant Transaction Document if in respect of the relevant matter Ambac would otherwise have had a right of consent if it were not a Basic Terms Modification or Reserved Matter (but excluding matters in respect of the Ambac Financial Guarantee)), the Security Trustee shall act on the

instructions or directions of Ambac (or the Note Trustee itself acting on the directions of Ambac), which instructions and directions will be conclusive and binding.

Subject as provided above, in having regard to, or in acting or omitting to act in the interests of the Noteholders or either Class of them, the Security Trustee shall be entitled to rely solely on the confirmation or instructions or direction of the Note Trustee whether (i) in its opinion, any matter, action or omission is or is not in the interests of or is not prejudicial or materially prejudicial to the interests of the Noteholders or either Class of them, or (ii) a direction, instruction or authorisation has been given by or on behalf of the Noteholders by Extraordinary Resolution or by holders of a specified percentage of Notes (in each case of either Class) and until it receives such direction, instruction or authorisation, the Security Trustee shall not be obliged to take any action, exercise any right, power or discretion or perform any duty or refrain from doing so.

The right to direct the Security Trustee to take certain action, including, *inter alia*, to enforce the security created under the Issuer Deed of Charge, is given to the Controlling Creditor. So long as no Ambac Event of Default (as defined in the Ambac Financial Guarantee) has occurred and not been waived or cured and any of the Class A-1 Notes remains outstanding or any amounts remain unpaid under the Financial Guarantee Reimbursement Agreement, Ambac will be the Controlling Creditor, otherwise the Note Trustee will be the Controlling Creditor for as long as any Notes remain outstanding. Ambac, as the Controlling Creditor, has no obligation to have regard to the interests of the Noteholders or any of the other Secured Creditors; and neither the Note Trustee nor the Security Trustee will have regard to the interests of any Noteholders or any other Secured Creditor when acting on the instructions, confirmation or direction of Ambac.

If certain amounts due from the Issuer are outstanding to Ambac pursuant to the Financial Guarantee Reimbursement Agreement, the Issuer's obligations in respect thereof will rank in priority to certain payments to be made in respect of each Class of Notes.

See further Conditions 3(a)-(f) (*Status and Relationship Between the Notes*), 3(g)-(k) (*Conflicts of Interest*), 3(m) (*Priority of Payments Prior to Enforcement*) and 3(n) (*Priority of Payments Following Enforcement*).

**Limited Recourse:**

To the extent that the Available Funds are insufficient to pay the amount that would otherwise be due if there were sufficient Available Funds (a "Payment Shortfall"), all of the obligations of the Issuer in respect of the Notes of each Class and the Issuer's obligations to the other Secured Creditors will be limited to such Available Funds, which will be applied in accordance with the relevant Priority of Payments.

In such circumstances the Issuer will not be obliged to pay, and the other assets (if any) of the Issuer will not be available for payment of, such Payment Shortfall, which will be borne by the Secured Creditors in accordance with the relevant Priority of Payments (in reverse order). The rights of the Secured Creditors (including the Noteholders) to receive any further amounts in respect of such obligations will (after realisation of any Issuer Security) be extinguished and will not thereafter revive and none of the Noteholders of either Class or the other Secured Creditors may take any further action to recover such amounts.

Notwithstanding the foregoing, under the Ambac Financial Guarantee, Ambac will guarantee payment of Scheduled Interest and Ultimate Principal in respect of the Class A-1 Notes; accordingly, the claim of the Class A-1 Noteholders to payment of any Ultimate Principal or Scheduled Interest remaining outstanding under the Class A-1 Notes after the realisation of the Issuer Security and the application of the proceeds thereof in accordance with the applicable Priority of Payments would be payable in accordance with the terms and conditions of the Ambac Financial Guarantee. See further "*Form of Ambac Financial Guarantee*" below.

See further Condition 6(e) (*Limited Recourse*).

**Non-petition:**

None of the Noteholders of either Class or the other Secured Creditors (nor any other person acting on behalf of any of them) will be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, reorganisation, arrangement, examinership, insolvency, winding-up or liquidation proceedings or other proceedings under any applicable bankruptcy or similar law in connection with any obligations of the Issuer relating to the Notes of any Class, the Trust Deed or otherwise owed to the Secured Creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

Only the Security Trustee (acting, where applicable, on the directions of the Controlling Creditor) may pursue the remedies available under the Issuer Deed of Charge to enforce the rights of the Noteholders or of any of the other Secured Creditors under the Issuer Deed of Charge and no Noteholder or other Secured Creditor may proceed directly against the Issuer, or any of the Issuer Security, except that Ambac (or, if an Ambac Event of Default has occurred and is continuing, the Note Trustee) may so proceed directly if the Security Trustee, having become bound to do so, fails to do so within a reasonable period of time and such failure is continuing.

**Use of Proceeds:**

The gross proceeds from the issuance of the Notes on the Closing Date (being €400,000,000) will be applied by the Issuer on the Closing Date to fund the advance of the IL Loan pursuant to the Limited Partnership Agreement in the aggregate principal amount of €400,000,000 and the Issuer will use amounts paid up on its share capital to pay the capital contribution for the SLLPI of €1,000.

All initial costs of establishing the transaction will be borne directly by the General Partner and will not be funded out of the proceeds of the issue of the Notes. The Issuer will not be responsible for any costs or expenses or fees incurred in relation to establishing the transaction, including in relation to the issue of the Notes.

See further "*Use of Proceeds*" below.

**Available Funds:**

In respect of a Calculation Date, Available Funds for payment of interest due and repayment of principal outstanding on the immediately succeeding Interest Payment Date will consist solely of the aggregate amount of (a) payments scheduled to be received by the Issuer from the Limited Partnership under the IL Loan and the SLLPI on the Interest Payment Date immediately following such Calculation Date (adjusted on such Interest Payment Date to take account of any non-payment), (b) any balance standing to the credit of the Issuer Transaction Account, (c) amounts permitted to be drawn down on the Liquidity Facility or from the Issuer Liquidity Reserve Account on the Interest Payment Date immediately following such Calculation Date (adjusted on such Interest Payment Date to take account of any non-payment), (d) amounts permitted to be drawn from the Issuer Expenses Reserve Account on the Interest Payment Date immediately following such Calculation Date to the extent available for particular payments, (e) payments (if any) received by the Issuer pursuant to any other

Transaction Document or otherwise and (f) amounts recovered by the Issuer in respect of tax withheld by the Limited Partnership in respect of which Additional Amounts were paid by the Limited Partnership to the Issuer.

**Issuer Expenses Loan:**

Bank of Ireland will advance €500,000 to the Issuer as the interest-free Issuer Expenses Loan, which amount will be credited to the Issuer Expenses Reserve Account. The Issuer Expenses Reserve Account may be drawn to fund expenses and other obligations of the Issuer which are not funded by payments from the Limited Partnership (other than payments of interest or principal on the Notes or payments of principal to the Liquidity Facility Provider or in reimbursement of Ambac in respect of payments made by Ambac under the Ambac Financial Guarantee or the Ambac Liquidity Facility Financial Guarantee). Drawings from the Issuer Expenses Reserve Account will not be replenished.

**Priority of Payment:**

Prior to the delivery of an Enforcement Notice in accordance with Condition 10(d) (*Enforcement Notice*), Available Funds will be applied in accordance with the priority of payments (the "**Pre-Enforcement Priority of Payments**") set out in Condition 3(m) (*Priority of Payments Prior to Enforcement*).

Following delivery of an Enforcement Notice in accordance with Condition 10(d) (*Enforcement Notice*), Available Funds will be applied in accordance with the priority of payments (the "**Post-Enforcement Priority of Payments**") set out in Condition 3(n) (*Priority of Payments following Enforcement*). The Post-Enforcement Priority of Payments and the Pre-Enforcement Priority of Payments are each a "**Priority of Payments**").

See further Conditions 3(m) (*Priority of Payments Prior to Enforcement*), 3(n) (*Priority of Payments Following Enforcement*) and 10 (*Issuer Enforcement Events*).

**Interest Payment Dates:**

The 30<sup>th</sup> day of January, April, July and October of each year (or, if any such day is not a Business Day, the next following Business Day or, if such day would fall in the next calendar month, the immediately preceding Business Day), commencing 30 January 2008 (or if such day is not a Business Day, the next following Business Day or, if such day would fall in the next calendar month, the immediately preceding Business Day).

**Interest:**

Subject to Available Funds, interest on the Notes will be payable in arrears on each Interest Payment Date and will accrue at the following rates:

*Class A-1 Notes:* In respect of the first Interest Period, the linear interpolation of three-month EURIBOR and four-month EURIBOR plus 0.75 per cent. *per annum* and thereafter three-month EURIBOR (as determined in accordance with Condition 5 (*Interest*)) plus 0.75 per cent. *per annum* (the “Class A-1 Floating Rate of Interest”).

*Class A-2 Notes:* In respect of the first Interest Period, the linear interpolation of three-month EURIBOR and four-month EURIBOR plus 3.09 per cent. *per annum* and thereafter three-month EURIBOR (as determined in accordance with Condition 5 (*Interest*)) plus 3.09 per cent. *per annum* (the “Class A-2 Floating Rate of Interest”; the Class A-1 Floating Rate of Interest and the Class A-2 Floating Rate of Interest, each a “Note Floating Rate of Interest”).

The Issuer will only be able to pay any Interest Amount payable in respect of the Notes in full on any Interest Payment Date to the extent that there are Available Funds available for payment thereof in accordance with the relevant Priority of Payments. To the extent that the Available Funds are insufficient to pay the amount due (a “Payment Shortfall”), an Issuer Enforcement Event will not occur. An amount of interest equal to any shortfall will accrue interest at the Class A-1 Floating Rate of Interest or the Class A-2 Floating Rate of Interest, as applicable, from such Interest Payment Date while it remains outstanding, which interest will be aggregated with the interest due on the relevant Class of Notes and be payable on the next succeeding Interest Payment Date (subject to Available Funds for application under the relevant Priority of Payments to payment of such interest). Notwithstanding the foregoing, Class A-1 Noteholders will have no right to receive any interest that has been unpaid as described above for which they have been indemnified under the Ambac Financial Guarantee.

See further Condition 5 (*Interest*).

Under the Ambac Financial Guarantee, Ambac will guarantee Scheduled Interest (as well as Ultimate Principal) in respect of the Class A-1 Notes. See further “*Form of Ambac Financial Guarantee*” below.

**Consequences of Non-Payment:**

Except on the Maturity Date, a failure on the part of the Issuer to pay any of the amounts referred to in

Condition 3(m) (*Priority of Payments Prior to Enforcement*) or Condition 3(n) (*Priority of Payments Following Enforcement*) to the Noteholders (or relevant other Secured Creditor), by reason solely of a Payment Shortfall (such as due to a shortfall in payment of interest or principal or distributions by the Limited Partnership as a result of insufficient Annual Recourse Cashflow Amounts arising in a Calculation Period), will not constitute an Issuer Enforcement Event pursuant to Condition 10(b) (*Events*). There are no events of default with respect to the Notes.

See further Condition 10(c) (*Non-payment of Amounts*).

Notwithstanding the foregoing, any amount of Scheduled Interest or Ultimate Principal in respect of the Class A-1 Notes (as defined in the Ambac Financial Guarantee) not paid by the Issuer would be due under the Ambac Financial Guarantee without the Issuer Security first having to be enforced.

**Principal Repayments:**

Principal repayments on the Notes will be made to the extent that Available Funds remain after their application to payments ranking senior in the relevant Priority of Payments (see – “*Ranking of Notes and Subordination*” above).

See further Condition 6 (*Redemption, Purchase and Cancellation*).

Under the Ambac Financial Guarantee, Ambac will guarantee Ultimate Principal (as well as Scheduled Interest) in respect of the Class A-1 Notes. See further “*Form of Ambac Financial Guarantee*” below.

**Final Maturity:**

Save to the extent previously redeemed and cancelled, the Notes of each Class will be redeemed on the Interest Payment Date falling in July 2032 (the “**Maturity Date**”).

See further Condition 6(a) (*Final Redemption*).

**Liquidity Facility:**

The Issuer will enter into a 364-day revolving liquidity facility agreement (the “**Liquidity Facility Agreement**” and the committed facility thereunder, (the “**Liquidity Facility**”) with HSBC Bank plc as Liquidity Facility Provider (the “**Liquidity Facility Provider**”) pursuant to which the Issuer may in certain circumstances and subject to satisfaction of certain conditions, draw amounts (each a “**Liquidity Facility Advance**”) to fund interest on the Class A-1 Notes.



Any drawing under the Liquidity Facility will be made by the Issuer Cash Manager.

On each Calculation Date, the Issuer Cash Manager will determine whether on the immediately succeeding Interest Payment Date the aggregate amount of the Issuer's obligations in respect of the items set out in Condition 3(m)(i) to (vii) of the Pre-Enforcement Priority of Payments (if the Pre-Enforcement Priority of Payments is then applicable) or Condition 3(n)(i) to (vii) of the Post-Enforcement Priority of Payments (if the Post-Enforcement Priority of Payments is then applicable), in each case treating the Liquidity Netting Amount and Liquidity Reserve Netting Amount (as defined in the terms and conditions of the Notes) as zero, will exceed the Available Funds (ignoring any amounts available under the Liquidity Facility or from the Issuer Liquidity Reserve Account and having regard to the proviso preventing application of amounts withdrawn from the Issuer Expenses Reserve Account) (such shortfall amount being an "**Available Funds Shortfall**"). If it is determined that any Available Funds Shortfall will occur, the Issuer Cash Manager will determine the amount which is the lesser of the Available Funds Shortfall and the amount of interest payable on the immediately succeeding Interest Payment Date as the items set out at Condition 3(m)(vii) of the Pre-Enforcement Priority of Payments (if the Pre-Enforcement Priority of Payments is then applicable) or Condition 3(n)(vii) of the Post-Enforcement Priority of Payments (if the Post-Enforcement Priority of Payments is then applicable) (such amount being a "**Liquidity Shortfall**"). If it is determined that a Liquidity Shortfall will occur, the Issuer Cash Manager will make a drawing under the Liquidity Facility Agreement (a "**Liquidity Facility Drawing**") in an amount equal to the lower of the total amount that may be drawn down by the Issuer under the Liquidity Facility as described below and an amount equal to but not exceeding the Liquidity Shortfall and the amount drawn will form part of the Available Funds, but will be available solely for the purposes of paying interest on the Class A-1 Notes. The Issuer will be obliged to repay each Liquidity Facility Drawing on the first Interest Payment Date on which it has Available Funds sufficient to repay such drawing after payment of amounts ranking higher in the relevant Priority of Payments (in whole or in part) and on the Maturity Date. Amounts repaid may, subject to certain conditions, be redrawn. Adjustments will be made to the amount drawn so that amounts do not need to be repaid on an Interest Payment Date if they would need to be redrawn to

fund payment of interest on the Class A-1 Notes on the same Interest Payment Date.

The maximum amount available to be drawn under the Liquidity Facility is €7,000,000 (the "**Total Liquidity Facility Amount**").

The total amount that may be drawn down by the Issuer under the Liquidity Facility will be the Total Liquidity Facility Amount less the aggregate of all Liquidity Facility Advances drawn down which remain outstanding under such Liquidity Facility.

Initially, the period during which Liquidity Facility Advances may be drawn down (the "**Availability Period**") for each Liquidity Facility is 364 days. Provided that there are Class A-1 Notes outstanding, the Liquidity Facility Provider may, in accordance with the Liquidity Facility Agreement and if so requested by the Issuer Cash Manager not more than 45 Business Days and not later than 20 Business Days before the end of the then current Availability Period, extend and renew its Liquidity Facility for an additional 364-day period.

If (a) the Liquidity Facility Provider does not extend and renew the commitment period for a further 364 days under the Liquidity Facility or (b) the senior, unsecured and unguaranteed long-term debt obligations of the Liquidity Facility Provider are rated below "A1" by Moody's or "A+" by S&P (such ratings, the "**Liquidity Required Ratings**", and each such event, a "**Liquidity Facility Relevant Event**"), and within five Business Days of the occurrence of a Liquidity Facility Relevant Event the Issuer has not entered into a replacement liquidity facility agreement on substantially the same terms as such Liquidity Facility Agreement with a liquidity facility provider who satisfies the Liquidity Required Ratings (or whose guarantor or provider of credit satisfies the Liquidity Required Ratings), then the Issuer Cash Manager will be required, provided the drawing conditions are satisfied, to make a drawing (a "**Prefunded Liquidity Reserve Advance**") equal to but not exceeding the amount of the undrawn portion of the Liquidity Facility and will pay such amount into a designated bank account of the Issuer (the "**Issuer Liquidity Reserve Account**") maintained with the Issuer Account Bank or any replacement thereof with the Required Ratings. Such monies will be subject to security in favour of the Security Trustee for the sole benefit and on behalf of the Liquidity Facility Provider and they will be available to the Issuer solely for the purposes of payment of interest on the Class A-1 Notes and payment of

amounts due to the Liquidity Facility Provider (for which purposes alone they will form part of Available Funds).

The Liquidity Facility Provider's obligation to make each Liquidity Facility Advance and the Liquidity Facility Provider's obligation to continue its commitment to fund such advances under the Liquidity Facility Agreement are subject to certain conditions. See further "*Description of the Liquidity Facility Agreement*" below.

Interest will accrue on the principal amount outstanding under each Liquidity Facility Advance (including any Prefunded Liquidity Reserve Advance) at a floating rate of EURIBOR plus a margin of 1.00 per cent. *per annum*, and will be payable on each Interest Payment Date prior to payment of any interest due and payable in respect of the Class A-1 Notes and reimbursement of Ambac for amounts paid by it under the Ambac Financial Guarantee or the Ambac Liquidity Facility Financial Guarantee. Any interest which is accrued but unpaid on any Interest Payment Date shall accrue interest at the rate applicable to such Liquidity Facility Advance until such time as it is paid in accordance with the applicable Priority of Payments.

To the extent that additional amounts are payable by the Issuer to the Liquidity Facility Provider pursuant to the terms of the Liquidity Facility Agreement as a result of a tax deduction or increased costs, then such amounts (the "**Liquidity Facility Subordinated Amounts**") will, in accordance with the applicable Priority of Payments, rank junior to payments then due and payable in relation to the Class A-1 Notes and the Class A-2 Notes.

A commitment fee of 0.50 per cent. *per annum* on the undrawn, uncanceled amount of the Total Liquidity Facility Amount under the Liquidity Facility will be payable by the Issuer on each Interest Payment Date in accordance with the applicable Priority of Payments.

Certain of the Issuer's obligations under the Liquidity Facility Agreement (other than in respect of Liquidity Facility Subordinated Amounts but including the obligation to repay amounts standing to the credit of the Issuer Liquidity Reserve Account) will be guaranteed by Ambac pursuant to a guarantee (the "**Ambac Liquidity Facility Financial Guarantee**") entered into on or about the Closing Date.

**Security for the Notes:**

The Secured Obligations (consisting, *inter alia*, of the Issuer's obligations under the Notes and its obligations to certain of its other creditors, including Ambac under the Financial Guarantee Reimbursement Agreement) will be secured by the Issuer Deed of Charge which will create first-priority fixed charges and a first-priority floating charge over the Issuer Security (being substantially all of the assets of the Issuer) in favour of the Security Trustee for the Secured Creditors, which includes, *inter alios*, the Noteholders, the Note Trustee and Ambac. The security created by the Issuer Deed of Charge will include:

- (1) a charge, by way of first fixed security for the payment and discharge of the Secured Obligations, to and in favour of the Security Trustee of all of its right, title, interest and benefit, existing at the date of the Issuer Deed of Charge or in the future, in and to the IL Loan and the SLLPI and all the Issuer's rights under the Limited Partnership Agreement, including, without limitation, all right, title, interest and benefit of the Issuer in, to, under or in respect of the right to receive, demand, sue for, recover and give receipts for all principal and other moneys payable under the IL Loan and the SLLPI or the unpaid part thereof and the interest due or to become due thereon;
- (2) an assignment, by way of first fixed security for the payment or discharge of the Secured Obligations, to and in favour of the Security Trustee of all of its right, title, interest and benefit, existing at the date of the Issuer Deed of Charge or in the future, in, to, under or in respect of each of the Issuer Transaction Documents (other than the Issuer Corporate Services Agreement and the Limited Partnership Agreement (including the IL Loan and the SLLPI)) (together, the "Assigned Contractual Rights") 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 at the date of the Issuer Deed of Charge or at any time in the future other than any rights arising under the Issuer Corporate Services Agreement, the IL Loan, the SLLPI or the Limited Partnership Agreement;
- (3) a charge, by way of first fixed security for the payment and discharge of the Secured

Obligations, to and in favour of the Security Trustee of all of its right, title, interest and benefit, existing at the date of the Issuer Deed of Charge or in the future, in and to all sums of moneys which are at or may be after the date of the Issuer Deed of Charge or thereafter from time to time standing to the credit of the Issuer Accounts and any other bank account 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 thereon and other moneys received in respect thereof; and

- (4) a charge, by way of first floating charge for the payment or discharge of the Secured Obligations, to and in favour of the Security Trustee over the whole of the Issuer's undertaking and all of its property and assets whatsoever and wheresoever situate, present and future, other than any property or assets from time to time or for the time being effectively charged by way of fixed security or charge, or otherwise assigned by way of security as security, pursuant to the Issuer Deed of Charge and other than the Issuer Share Capital Account. (A floating charge may not be recognised in Luxembourg insolvency proceedings against the Issuer – see “*Risk Factors – Luxembourg Insolvency Issues*”.)

**Issuer Transaction Documents:**

means the Trust Deed, the Notes, the Ambac Financial Guarantee, the Ambac Liquidity Facility Financial Guarantee, the Ambac Fee Letter, the Financial Guarantee Reimbursement Agreement, the Agency Agreement, the Cash Management Agreement, the Issuer Deed of Charge, the Limited Partnership Agreement, the Security Power of Attorney, the Subscription Agreement, the Master Definitions and Framework Deed, the Account Bank Agreement, the Liquidity Facility Agreement, the Issuer Expenses Loan Agreement and the Issuer Corporate Services Agreement and any other document which is designated as an “Issuer Transaction Document” with the consent of the Controlling Creditor and the Issuer.

**Withholding Tax on Notes:**

All payments made by the Issuer under the Notes will be made without any deduction or withholding for or on account of any tax unless such deduction or withholding is required by applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If the

Issuer is so required to deduct or withhold, then the Issuer will not be obliged to pay any additional amounts in respect of such withholding or deduction. Any such withholding or deduction will not constitute an Issuer Enforcement Event under Condition 10(b) (*Events*) and the Notes will not be accelerated or otherwise become payable.

If any amount is deducted or withheld from payment on any Class A-1 Note on account of tax, Ambac will have no obligation to pay such amount under the Ambac Financial Guarantee. If any amount is deducted or withheld from any payment by Ambac under the Ambac Financial Guarantee on account of tax, Ambac will have no obligation to pay any additional amounts in respect of such deduction or withholding.

See further Condition 9 (*Taxation*).

**Listing and Trading:**

Application has been made to the Financial Regulator for Ireland, as competent authority under the Prospectus Directive, for the approval of this Prospectus. Application has been made to the Irish Stock Exchange for the admittance of the Notes to the Official List of the Irish Stock Exchange and trading on its regulated market.

**Ratings:**

It is a condition to the issuance of the Notes that the Class A-1 Notes be rated "Aaa" by Moody's and "AAA" by S&P and that the Class A-2 Notes be rated "Baa1" by Moody's and "A-" by S&P. The ratings of the Class A-1 Notes are based on 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 applicable Rating Agency.**

**Issuer Accounts:**

For the purposes of the Notes, the Issuer will, on or prior to the Closing Date, establish with the Account Bank the Issuer Transaction Account, the Issuer Expenses Reserve Account and the Issuer Liquidity Reserve Account (the "**Issuer Accounts**"). The Issuer has also established an account (the "**Issuer Share Capital Account**") with Credem International (Lux) SA in which its share capital is held.

**Governing Law:**

The Notes, the Trust Deed and each of the other Transaction Documents (other than the Issuer Corporate Services Agreement and the GP Forward Subscription Agreement) will be governed by, and construed in accordance with, English law. The Issuer Corporate Services Agreement is governed by, and construed in accordance with, the laws of

Luxembourg. The GP Forward Subscription Agreement will be governed by, and construed in accordance with, the laws of the Cayman Islands. The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915 on commercial companies, as amended, are excluded.

## **THE LIMITED PARTNERSHIP INTEREST AND THE LIMITED PARTNER LOAN**

### **The Limited Partnership:**

BOI VIF Funding (No. 1) LP was established pursuant to a limited partnership agreement dated 14 September 2007 between the Initial General Partner and the Initial Limited Partner. Under that agreement the Initial General Partner and the Initial Limited Partner agreed to make capital contributions of €10,000 each. On 28 September 2007 the Initial General Partner transferred its right and obligations as general partner to Vida Pura Limited and Vida Pura Limited became the general partner; a statement specifying a change in the general partner was delivered to the registrar of limited partnerships in accordance with the provisions of the Limited Partnerships Act 1907. On or before the Closing Date the limited partnership agreement will be amended and restated to provide for the creation of the IL Loan and the SLLPI on the terms described herein.

### **The Insurance-linked Loan:**

On the Closing Date, the Issuer will make the Insurance-linked Loan (the "IL Loan") to the Limited Partnership in the amount of €400,000,000.

### **The Savings-linked Limited Partnership Interest:**

In addition, the Limited Partnership will issue to the Issuer the Savings-linked Limited Partnership Interest (the "SLLPI") in consideration of a contribution by the Issuer of €1,000 as capital, to be funded out of the Issuer's share capital. The SLLPI represents a limited partnership interest in the Limited Partnership.

See further "*Terms and Conditions of the Insurance-linked Loan and Savings-linked Limited Partnership Interest – Terms of the Savings-Linked Limited Partnership Interest*" below.

### **Additional Receipt:**

In addition to the proceeds received from the Issuer under the IL Loan and the SLLPI, the Limited Partnership will also, on or before the Closing Date, receive a dividend from a company in the Bank of Ireland Group (in which the Limited Partnership holds a single-purpose dividend access share) in the amount of €40,000,000, which will be credited to the GP Account. Pursuant to the terms of the Limited Partnership Agreement, the General Partner will not be able to withdraw profits or capital from the

Limited Partnership (including amounts credited to the GP Account) until the IL Loan has been repaid or written off in full and no amount remains outstanding on the Deficit Account, the Missed Spread Account and the Missed SLLPI EURIBOR Account or the Maturity Date, if earlier (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid).

**Dynamic Defined Block:**

Certain payments under the IL Loan and distributions on the SLLPI will be calculated by reference to the surplus produced by, and the value-in-force (see “*VIF*” below) of the Dynamic Defined Block, being a defined block of unit-linked life insurance and unit-linked pension contracts entered into or acquired by BoI Life on or prior to 30 June 2007 together with any Additional Policies added thereto as described below. Additional unit-linked life insurance and unit-linked pension contracts entered into after 30 June 2007 that meet certain eligibility criteria may be added to the Dynamic Defined Block until (and including) the Annual Determination Date falling in July 2012 or, if earlier, an Amortisation Event occurring (see “*Amortisation*” below).

Prior to the Amortisation Period, the IL Loan may be repayable in part or distributions may be payable on the SLLPI if partial amortisation is required. See below under “*Payments of interest and principal on the IL Loan and distributions on the SLLPI – an overview*”. Otherwise, the IL Loan will start to amortise in full on the Distribution Payment Date falling in July 2013 or, if earlier, on the Distribution Payment Date first following the Annual Determination Date first occurring after an Amortisation Event or an Acceleration Event (see “*Acceleration of the IL Loan and Distributions under the SLLPP*” below).

**Annual Recourse Cashflow Amounts:**

Surplus is expected to emerge in each Accounting Period from the contracts within the Dynamic Defined Block; such surplus, as described in this document, is referred to as the “**Annual Recourse Cashflow Amount**”. A portion of the Annual Recourse Cashflow Amount (referred to as the “**Annual Recourse Insurance Cashflow Amount**”) will relate to the contracts within the Dynamic Defined Block deemed under IFRS4 to be “contracts of insurance” (the “**Insurance Contracts**”) and the remainder of which (the “**Annual Recourse Savings Cashflow Amount**”) will relate to the other contracts within the Dynamic Defined Block, which are deemed under IFRS4 not to be “contracts of insurance” (the “**Savings Contracts**”).



For a detailed description of the Annual Recourse Cashflow Amount and the relevance of the distinction between the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount see “*Description of the Dynamic Defined Block*” generally and, in particular, “*Description of the Dynamic Defined Block – Summary of calculations of Annual Recourse Cashflow Amounts, Projected VIF and ancillary calculations and deferral of payments on the IL Loan and the SLLPI – Introduction to calculation of the Annual Recourse Cashflow Amount*”, “*– Methodology for determining the Annual Recourse Insurance Cashflow Amount in respect of an Accounting Period*” and “*– Methodology for determining the Annual Recourse Savings Cashflow Amount in respect of an Accounting Period*” and “*Risk Factors – Restriction on amounts payable under the IL Loan and the SLLPI*”.

**VIF:**

The projected value of the Dynamic Defined Block will be measured by the present value of the surpluses that are projected to emerge from it over time to the end of the Accounting Period ending in March 2032 (referred to as the “**value-in-force**” or “**VIF**”; VIF relating to the Insurance Contracts being referred to as the “**Projected Insurance VIF**” and VIF relating to the Savings Contracts being referred to as the “**Projected Savings VIF**” and together referred to as “**Projected VIF**”). The discount rate used reflects the Projected Spread Rate. “**Projected Spread Rate**” means the sum of (i) the Weighted Average Spread Rate and (ii) the amount of the annual expenses expected to be comprised in the LP Funded Expense Amount for the following four Distribution Payment Dates expressed as a rate per cent. *per annum* of the outstanding principal of the Notes. Changes in the VIF projected for the Dynamic Defined Block will, *inter alia*, affect the calculations of amounts payable in respect of the IL Loan and the SLLPI.

Projected Insurance VIF and Projected Savings VIF under the Base Case are set out under “*Actuaries’ Report*”.

For a description of how VIF will be calculated, and the relevance of the distinction between Projected Insurance VIF and Projected Savings VIF see “*Description of the Dynamic Defined Block*” generally and, in particular, “*Description of the Dynamic Defined Block – Summary of calculations of Annual Recourse Cashflow Amounts, Projected VIF and ancillary calculations and payments on the IL Loan and SLLPI – Introduction to the calculation of the Projected VIF*”, “*– Methodology for calculating*

*the Projected Insurance VIF” and “– Methodology for calculating the Projected Savings VIF”.*

**Calculation of VIF and Annual Recourse Cashflow Amounts:**

BoI Life as VIF Calculation Agent will make all calculations concerning the Annual Recourse Cashflow Amount and Projected VIF in respect of the Dynamic Defined Block. An external actuary, referred to as the “**Relevant Person**”, will provide an independent review, taking into account on a non-exhaustive basis the general interests of Noteholders as a group (and not the interests of any particular Noteholder and without assuming a duty of care to Noteholders either individually or collectively), of BoI Life’s calculations in accordance with the terms of the Calculation Agreement. In certain circumstances disputes between the Relevant Person and BoI Life may be referred for resolution to a third-party independent actuary. See “*Description of the Dynamic Defined Block – The Procedures for determining the Annual Recourse Cashflow Amount and Projected VIF*”.

**Distribution Payment Date:**

The Limited Partnership will make payments of interest and principal on the IL Loan and distributions on the SLLPI in accordance with the terms of the IL Loan and the SLLPI on, in the case of interest on the IL Loan and SLLPI Profit Distribution Amounts, 30 January, 30 April, 30 July and 30 October in each year, commencing 30 January 2008 (or, if such day is not a Business Day, the next following Business Day or, if such day would fall in the next calendar month, the immediately preceding Business Day) (each a “**Distribution Payment Date**”) and, in the case of repayments of principal on the IL Loan and distributions in respect of SLLPI Loan Reduction Profit Amounts, the Distribution Payment Date falling in July each year (or, following the occurrence of an Acceleration Event, on the Distribution Payment Date first following the Distribution Determination Date first following the occurrence of such Acceleration Event).

**Savings Surplus Election:**

On each Annual Determination Date (whether or not any amounts are recorded on the Deficit Account or Missed Spread Account) the General Partner will determine whether it wishes to make the Savings Surplus Election in respect of each Distribution Payment Date falling prior to the next Annual Determination Date (or, in the case of the Annual Determination Date falling immediately prior to the Final Distribution Date, to and including the Final Distribution Date). If the General Partner determines to make such a Savings Surplus Election it will give notice thereof to the Issuer and to Ambac and such

election will apply to each Distribution Payment Date falling prior to the next Annual Determination Date (or to the next four Distribution Payment Dates if there are fewer than four falling prior to the next Annual Determination Date) unless such date is an Acceleration Date, in which event a further election may be required to be made in respect of such date.

If a Non-Sale Acceleration Event occurs, the General Partner shall determine whether to make the Savings Surplus Election in respect of the Acceleration Date relating to such Acceleration Event.

If a Sale Acceleration Event occurs, the General Partner will be deemed to make a Savings Surplus Election in respect of the deemed Annual Determination Date arising in respect of such Sale Acceleration Event if it made a Savings Surplus Election on or in respect of the previous Annual Determination Date, and, if it did not make a Savings Surplus Election on or in respect of the previous Annual Determination Date, it will determine whether to make the Savings Surplus Election in respect of the Acceleration Date relating to such Acceleration Event.

With respect to any Annual Recourse Savings Cashflow Amount arising in respect of any Annual Determination Date following the occurrence of a Bank of Ireland Insolvency Event and with respect to any EURIBOR accruing after such date on the Deficit Account Balance, the General Partner will be deemed to have made a Savings Surplus Election. Any amount standing to the credit of the Savings Surplus Tracking Account prior to the Bank of Ireland Insolvency Event shall be removed from it on the occurrence of a Bank of Ireland Insolvency Event.

If Bank of Ireland fails to comply with the terms of the Dividend Stopper (as defined below), a Savings Surplus Election will be deemed to be made, but only as respects such part of the balance of the Savings Cashflow Tracking Account (as defined below) as equals the aggregate amount paid by way of dividend or otherwise distributed or the value of the shares redeemed, repurchased or otherwise acquired in breach of the Dividend Stopper.

**Payments of interest and principal  
on the IL Loan and distributions on  
the SLLPI – an overview:**

Payments of interest and principal on the IL Loan and distributions on the SLLPI depend on a variety of factors which result in debits and credits being made to the Partnership Accounts (see "*Terms and Conditions of the Insurance-linked Loan and the*

*Savings-linked Limited Partnership Interest – Operation of the Capital Accounts, Distributions of Profit and Payments in respect of the IL Loan*). The following summarises the economic effect of the operation of the accounts in the normal course. Reference should be made to the operation of the accounts to determine their precise effect. The principal complexity arises if an IL Impairment occurs or a Downgrade Direction Event occurs.

*Interest on the IL Loan prior to an IL Impairment or Downgrade Direction Event:* Prior to an IL Impairment Amount being determined (an “**IL Impairment**”) and subject as set out below, interest is payable on the IL Loan principal balance in an amount equal to the sum of (i) the product of three-month EURIBOR (determined to correspond to EURIBOR rate on the Notes), the EURIBOR Principal Balance (as defined in the Limited Partnership Agreement) at the beginning of the period and the applicable day count fraction and (ii) the Spread for the relevant Distribution Period (itself being the sum of (x) the product of the Weighted Average Spread Rate (being the weighted average margin on the Notes), the EURIBOR Principal Balance at the beginning of the period and the applicable day count fraction and (y) the LP Funded Expense Amount (reflecting expenses expected to be incurred by the Issuer)).

If the Annual Recourse Insurance Cashflow Amount on an Annual Determination Date is less than the Spread for the Spread Calculation Period (being the Distribution Payment Date first following an Annual Determination Date and the three preceding Distribution Payment Dates (or, in the case of the first Annual Determination Date, those since the Closing Date)), the deficiency will be deducted from the Spread component of interest on the IL Loan on the next Distribution Payment Date (and on succeeding Distribution Payment Dates until reduced to zero) but a corresponding amount will be paid as a distribution on the SLLPI on the Distribution Payment Dates on which interest on the IL Loan is reduced provided (i) the General Partner has made a Savings Surplus Election in respect of such Annual Determination Date and (ii) the balance of the Savings Cashflow Tracking Account (to which the Annual Recourse Savings Cashflow Amount is credited each year, albeit that it is reset to zero in the Pre-Amortisation Period each year) exceeds the deficiency. If either (i) or (ii) is not applicable, the effect on the transaction depends on whether the reason for non-payment is because the General Partner failed to make a Savings Surplus Election or because the balance on the

Savings Cashflow Tracking Account was less than the deficiency.

If it is because a Savings Surplus Election is not made, the Pre-Amortisation Period will end and Bank of Ireland will be subject to a Dividend Stopper until, generally, it makes a Savings Surplus Election and the payments (with interest) which have not been made as a result of not making the Savings Surplus Election are made. The amount of the deficiency will, as described above, reduce the Spread component of interest on the IL Loan on the next Distribution Payment Date (and on subsequent Distribution Payment Dates) until such time as the deficiency has been withheld from the subsequent Spread payments but no compensating distributions will be payable on the SLLPI (unless a Savings Surplus Election is subsequently made).

If it is because the deficiency is greater than the balance on the Savings Cashflow Tracking Account but a Savings Surplus Election has been made by the General Partner, the Pre-Amortisation Period will also end but there will be no Dividend Stopper. In addition, the balance of the Savings Cashflow Tracking Account will be paid as a distribution on the SLLPI on dates matching the corresponding reduction in the Spread component of interest on the IL Loan (to the extent the Savings Cashflow Tracking Account has funds sufficient to cover the deficiency).

In either case, the outstanding balance remaining will be added to the Missed Spread Account and will be carried forward to the next Annual Determination Date. The amount carried forward accrues notional interest at EURIBOR plus Spread (expressed as a rate per cent. *per annum*) on a quarterly compounding basis from the date of any reduction in the amount which would have been payable had there been sufficient Annual Recourse Insurance Cashflow Amount to cover that amount. The balance on the Missed Spread Account in respect of the IL Loan is carried forward and (together with the accrued notional interest) may be payable as either (i) additional interest on the IL Loan on the first Distribution Payment Date following the next Annual Determination Date to the extent that the Annual Recourse Insurance Cashflow Amount on such Annual Determination Date exceeds the Spread for the then Spread Calculation Period (but only to the extent of amounts that should have been paid out of the Annual Recourse Insurance Cashflow Amount) and/or (ii) a further distribution on the SLLPI to the extent of the Savings Cashflow Tracking Account balance (which will have had added to it the Annual

Recourse Savings Cashflow Amount for the immediately preceding Accounting Period) and provided the General Partner makes the Savings Surplus Election in respect of that Annual Determination Date.

*Principal repayment of the IL Loan in the Pre-Amortisation Period prior to an IL Impairment or Downgrade Direction Event:* In the Pre-Amortisation Period (which lasts until the Distribution Payment Date falling in July 2013 unless terminated earlier due to the occurrence of an Amortisation Event), no principal of the IL Loan will be repaid unless partial amortisation is required.

During the Pre-Amortisation Period partial amortisation may occur as set out under “*Description of the Dynamic Defined Block – Inclusion of Additional Policies in the Dynamic Defined Block*” below. In broad terms, the IL Loan outstanding on an Annual Determination Date is compared to the Projected Balance Sheet Insurance VIF and the Stressed VIF on such date. If either the Projected Balance Sheet Insurance VIF or the Stressed VIF is lower than the IL Loan balance, Additional Policies will be included in the Dynamic Defined Block to bring the Projected Balance Sheet Insurance VIF and the Stressed VIF after adding the Additional Policies above the IL Loan outstanding. If adding Additional Policies does not achieve this result, then the IL Loan may be repaid in part by the amount necessary to achieve this objective (or written down, with an amount corresponding to the part written down being matched by a corresponding distribution on the SLLPI (assuming a Savings Surplus Election is made or deemed to have been made)). This will result in partial amortisation prior to the Amortisation Period commencing.

The “**Projected Balance Sheet Insurance VIF**” is the amount which would be the Projected Insurance VIF were the discount rate used the same as the rate used in Bank of Ireland’s most recent annual accounts for determining the insurance value-in-force of BoI Life (and Projected Balance Sheet Insurance VIF is likely, accordingly, to be lower than the Projected Insurance VIF).

*Principal repayment of the IL Loan in the Amortisation Period prior to an IL Impairment or Downgrade Direction Event:* In the Amortisation Period the IL Loan will be repayable on each Distribution Payment Date first following the Annual Determination Date in an amount equal to the Annual Recourse Insurance Cashflow Amount for the most

recently ended Accounting Period less the Spread (and, broadly, any Spread on the Missed Spread Account described above).

*Distributions on the SLLPI prior to an IL Impairment:* If no IL Impairment occurs, no distributions will be made on the SLLPI prior to the IL Loan being repaid except, where a Savings Surplus Election is made, (i) to pay the amount by which the Annual Recourse Insurance Cashflow Amount is less than the Spread in respect of the relevant Spread Calculation Period or (ii) where partial amortisation occurs in the Pre-Amortisation Period and the amount available to cover it out of the Annual Recourse Insurance Cashflow Amount (after providing for Spread) is less than the partial amortisation required to permit the Pre-Amortisation Period to continue (see above).

*Occurrence of an IL Impairment:* An IL Impairment occurs, broadly, if on any Annual Determination Date the Annual Recourse Insurance Cashflow Amount and Projected Balance Sheet Insurance VIF is less than the sum of the then principal balance of the IL Loan and the Spread for the four Distribution Payment Dates to and including the Distribution Payment Date falling immediately after the Annual Determination Date at which such calculations are being made (see the definition of "IL Impairment Amount").

While an IL Impairment may reflect an insufficiency of Annual Recourse Insurance Cashflow Amount to cover the Spread in the relevant Spread Calculation Period, the following assumes this is not the case and that the impairment arises because, broadly, Projected Balance Sheet Insurance VIF is below the IL Loan principal balance.

If an IL Impairment arises, the principal balance of the IL Loan is written down and the IL Impairment Amount is added to an account (the "**Deficit Account**"). If the General Partner makes a Savings Surplus Election in respect of such Annual Determination Date, a distribution will be made on the SLLPI of the amount equal to the lower of the balance of the Deficit Account and the balance of the Savings Cashflow Tracking Account (to which the Annual Recourse Savings Cashflow Amount is credited each year, albeit that it is reset to zero in the Pre-Amortisation Period each year).

If a Savings Surplus Election is not made, the Pre-Amortisation Period will end (if it is otherwise continuing) and Bank of Ireland will be subject to a

Dividend Stopper until, generally, it makes a Savings Surplus Election.

If a Savings Surplus Election is made by the General Partner but there is still a balance on the Deficit Account (because the balance of the Savings Cashflow Tracking Account was less than the balance of the Deficit Account), the Pre-Amortisation Period will also end (if it is otherwise continuing) but there will be no Dividend Stopper.

In either case, the balance remaining will be carried forward to the next Annual Determination Date. The amount carried forward in the Deficit Account will accrue an allocation of the Spread (the "Savings Spread") which is recorded in a separate account. On the next Annual Determination Date the same process will be followed to determine whether payment is to be made of the balance on the Deficit Account and the Savings Spread (including any carried forward Savings Spread).

The balance on the Deficit Account will also accrue notional interest at EURIBOR (this is not, however, added to the Deficit Account). If a Savings Surplus Election is made, the EURIBOR component will be paid on each Distribution Payment Date to which the Savings Surplus Election relates (it is not dependent on there being a balance on the Savings Cashflow Tracking Account to cover it). If a Savings Surplus Election is not made the amount accruing is recorded in the Missed SLLPI EURIBOR Account and will be payable on the Determination Payment Date first following a Savings Surplus Election being made; in addition, if a Savings Surplus Election is not made, a Dividend Stopper will occur.

**Amortisation:**

An "Amortisation Event" occurs on the earliest of:

- (a) the failure of the Projected VIF and the Stressed VIF to meet certain tests or the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount to meet certain tests (see "*Description of Dynamic Defined Block – Inclusion of Additional Policies in the Dynamic Defined Block*" below);
- (b) the incurrence by BoI Life (i) of any Mis-selling Liability that alone or taken together with other Mis-selling Liabilities of BoI Life has a Material Adverse Effect and (ii) Ambac (for so long as it is the Controlling Creditor) having given the General Partner notice that the Pre-Amortisation Period is to end as a



result thereof (if Ambac is not the Controlling Creditor, the requirements of (ii) shall not apply);

- (c) the participation of BoI Life (i) in any Churning Activity for an Improper Purpose that alone or taken together with the participation of BoI Life in any other Churning Activity for an Improper Purpose has a Material Adverse Effect and (ii) Ambac (for so long as it is the Controlling Creditor) having given the General Partner notice that the Pre-Amortisation Period is to end as a result thereof (if Ambac is not the Controlling Creditor, the requirements of (ii) shall not apply). For these purposes, “**Improper Purpose**” means a desire to:
- (i) reduce surplus emerging from the Dynamic Defined Block;
  - (ii) cause profit to be generated outside the Dynamic Defined Block (whether in BoI Life or another company) at the expense of the Dynamic Defined Block; or
  - (iii) prevent the identification of an Invalidity or to prevent the calculation of the effect or the full effect of an Invalidity.
- (d) where Bank of Ireland does not have the Required Ratings, a failure by the General Partner, having been so directed by Ambac (if it is the Controlling Creditor) or (subject to it having actual knowledge of Bank of Ireland ceasing to have the Required Ratings) the Security Trustee (if Ambac is not the Controlling Creditor) acting on the instructions of the Note Trustee with the sanction of holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or an Extraordinary Resolution of holders of the Most Senior Class to realise or otherwise dispose of the Limited Partnership’s investments and deposit the proceeds, within 30 days of Ambac or the Security Trustee, as applicable, giving the direction, with a financial institution having (or whose obligations are guaranteed by a person that has) the Required Ratings which financial institution is nominated by Ambac (if it is the Controlling Creditor) or the Security Trustee

(if Ambac is not the Controlling Creditor) and which has agreed with Ambac or the Security Trustee, as applicable, to accept such funds on deposit from the Limited Partnership, provided that, in the case of the Security Trustee, the Security Trustee will, in respect of the Deposits, only direct the General Partner to transfer the Deposits (if any) in accordance with the Deposits Policy and, in respect of other investments of the Limited Partnership, will only direct the General Partner to realise and deposit the proceeds of such investments on the instruction of the Note Trustee with the sanction or direction of holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or an Extraordinary Resolution of the holders of the Most Senior Class;

- (e) the failure of the Limited Partnership Agreement, the IL Loan, the SLLPI, the Support Agreement, the General Partner Keepwell Agreement, the GP Forward Subscription Agreement, the VIF Calculation Agreement, the Floating Rate Deposit Agreement or the Fixed Rate Deposit Agreement (in the latter two cases, for so long as such deposits are outstanding and, for the avoidance of doubt, withdrawing some or all of the funds on deposit shall not result in an Amortisation Event occurring) to be legal, valid and binding if such failure (A) is not cured or remedied within 60 days and (B) has either a Material Adverse Effect or is otherwise materially prejudicial to the material obligations of Bank of Ireland, BoI Life, the General Partner or the Limited Partnership, as applicable, or to the material rights of the Issuer under such agreement (in each case, taken as a whole and determined on the basis that such failure had not occurred).

For a detailed description of the Dynamic Defined Block, see "*Description of the Dynamic Defined Block*" below.

**Acceleration of the IL Loan and Distributions under the SLLPI:**

Each of the following is an Acceleration Event with the consequences summarised below.

*Non-Sale Acceleration Events:*

The Non-Sale Acceleration Events are the occurrence of a Dissolution Event, a BoI Life Licence Acceleration Event and a Dividend Stopper Non-Compliance Event.

A **“Dissolution Event”** means the dissolution of the Limited Partnership other than any dissolution occurring in respect of any partner transferring its interest in the Partnership or other “technical” dissolution.

A **“BoI Life Licence Acceleration Event”** shall occur if BoI Life ceases to maintain its authorisation under the European Communities (Life Assurance) Framework Regulations 1994 of Ireland (or any successor legislation) as necessary to carry on business of the class in which any Policy falls.

A **“Dividend Stopper Non-Compliance Event”** shall occur if Bank of Ireland fails to comply with the terms of the Dividend Stopper.

If a Non-Sale Acceleration Event occurs, the General Partner will promptly give notice thereof to the Issuer, Ambac and the other partners. The Distribution Determination Date first following the occurrence of a Non-Sale Acceleration Event is treated as if it were an Annual Determination Date, but:

- (a) an amount equal to the Projected Insurance VIF as at the immediately preceding Annual Determination Date, increased on a quarterly compounding basis on each Distribution Determination Date since the Distribution Determination Date first following the last Annual Determination Date at a rate equal to the Projected Spread Rate in respect of the relevant Distribution Period in which such Distribution Determination Date falls, shall be deemed to be the Annual Recourse Insurance Cashflow Amount;
- (b) an amount equal to the Projected Savings VIF as at the immediately preceding Annual Determination Date, increased on a quarterly compounding basis on each Distribution Determination Date since the Distribution Determination Date first following the last Annual Determination Date at a rate equal to the Projected Spread Rate in respect of the relevant Distribution Period in which such Distribution Determination Date falls, shall be deemed to be the Annual Recourse Savings Cashflow Amount; and

- (c) such Distribution Determination Date shall be the date by which the Savings Surplus Election must be made if the Savings Cashflow Tracking Account balance is to be applied in making distributions on the SLLPI on the immediately succeeding Distribution Payment Date. A specific Savings Surplus Election is required except in the case of a Dividend Stopper Non-Compliance Event, to the extent described below. Any Savings Surplus Election made on a prior Annual Determination Date will not apply with respect to the Distribution Determination Date for Non-Sale Acceleration Events. In the case of a Dividend Stopper Non-Compliance Event, a Savings Surplus Election will be treated as having been made with respect to the lower of (I) the then balance on the Savings Cashflow Tracking Account and (II) the aggregate amount paid by way of dividend or otherwise distributed or the value of the shares redeemed, repurchased or otherwise acquired in breach of the Dividend Stopper (to the extent not previously taken into account); this does not affect amounts accruing on the Missed SLLPI EURIBOR Account, which will be payable only if an actual rather than a deemed Savings Surplus Election is made. If a Savings Surplus Election is not made, the amount credited to the Savings Cashflow Tracking Account (and any other balance on that account) will not be applied to cover balances on the Deficit Account or the Missed Spread Account but a Dividend Stopper will arise with respect to Bank of Ireland unless the Acceleration Event is a Dissolution Event arising from either (x) Ambac taking or initiating any action or proceeding for the dissolution of the Limited Partnership (including, without limitation, by rescission or repudiation) or (y) any of the Issuer, the Security Trustee or other Secured Creditor taking or initiating any action or proceeding for the dissolution of the Limited Partnership as a result of a direction of or of encouragement given by Ambac at a time when it is the Controlling Creditor.

Payments will be made on the following Distribution Payment Date (or, in the case of a Dissolution Event, on the fifth Business Day following the dissolution) (or, if a Savings Surplus Election is not initially made but is made subsequently, on the fifth Business Day following such election).

### *Sale Acceleration Events*

The Sale Acceleration Events are a BoI Life Disposal Event and a BoI Life Asset Disposal Event.

A “**BoI Life Disposal Event**” means (a) a sale by Bank of Ireland or another member of the Group of the controlling interest in BoI Life in one sale or a series of sales other than to a member of the Group or (b) a disposal by Bank of Ireland or another member of the Group in one transaction or a series of transactions other than with a member of the Group of the majority of the economic interest in the shares in BoI Life. For these purposes a “controlling interest” in a person exists if a person has a majority of the voting rights in such person or owns shares representing the majority of the net equity of such person whether or not such equity securities have any voting rights.

A “**BoI Life Asset Disposal Event**” shall occur if either of the two following tests are met:

- (a) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the commencement of the Amortisation Period is equal to or greater than 50 per cent. of the Projected VIF at the commencement of the Amortisation Period; or
- (b) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the prior Annual Determination Date is equal to or greater than 50 per cent. of the Projected VIF as at such Annual Determination Date.

In such a case, the VIF Calculation Agent shall on the Distribution Determination Date immediately following the occurrence of such event determine an amount equal to:

- (x) the insurance value-in-force component of the gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer (“**Insurance VIF Sale Proceeds**”); and
- (y) the savings value-in-force component of the gross sale proceeds (before transaction expenses) and any other Economic

Equivalent of Sale Proceeds realised from the transfer (“Savings VIF Sale Proceeds”).

For these purposes, “Economic Equivalent of Sale Proceeds” means an increase in net assets due to a reduction in reserves arising from a transfer of assets and liabilities where assets transferred are lower than the assets backing the liabilities transferred in respect of the policies transferred immediately prior to the transfer.

The Insurance VIF Sale Proceeds will be treated as an Annual Recourse Insurance Cashflow Amount and the Savings VIF Sale Proceeds will be treated as an Annual Recourse Savings Cashflow Amount. If a Savings Surplus Election had been made with respect to the immediately preceding Annual Determination Date, it shall be deemed to have been made with respect to such Acceleration Date. If no balance remains on the IL Loan, the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account, the transaction will terminate.

To the extent that any balance remains on the IL Loan, the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account after giving effect to the foregoing, the calculations required to be made for the purposes of the transaction shall continue to be made with respect to the policies comprised in the Dynamic Defined Block at the time of the sale. The Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount shall be determined on each subsequent Annual Determination Date as if the transaction had continued. In addition, the amount of Spread which is required to be paid shall be determined (and whether the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount determined on Annual Determination Dates following the Acceleration Date are sufficient to cover such Spread) and, assuming sufficient Annual Recourse Insurance Cashflow Amounts and/or (provided that the General Partner makes the Savings Surplus Election) Annual Recourse Savings Cashflow Amounts, such Spread shall be paid by the Limited Partnership (subject to reduction for, *inter alia*, any Replacement Deposit Bank Deficiency). If prior to the Maturity Date (i) the aggregate of the Annual Recourse Insurance Cashflow Amounts and Annual Recourse Savings Cashflow Amounts determined after the sale less the amounts of Spread paid after the sale exceed (ii) the aggregate of the Insurance VIF Sale Proceeds and the Savings VIF Sale Proceeds determined in respect of the sale, the excess shall be

regarded as Annual Recourse Insurance Cashflow Amount or Annual Recourse Savings Cashflow Amount and any IL Loan balance, Deficit Account or Missed Spread Account shall be reduced accordingly (with corresponding payments being made on the IL Loan or SLLPI, as applicable).

If the transaction continues, Bank of Ireland will, pursuant to an undertaking in the Support Agreement, procure that:

- (a) in the case of a BoI Life Disposal Event, the person who provides covenants to Bank of Ireland in respect of the sale covenants with the relevant Bank of Ireland Group Member to procure that BoI Life continue to make the calculations and perform all its obligations under the Calculation Agreement as if such BoI Life Disposal Event had not occurred; or
- (b) in the case of a BoI Life Asset Disposal Event, the person who provides covenants to BoI Life in respect of the sale covenants with the relevant Bank of Ireland Group Member, in the case of a sale of the entire Dynamic Defined Block, to continue, or to procure that the purchaser of the policies continues, to make the calculations and perform all its obligations under the Calculation Agreement as if it were a party thereto or, in the case of sale of part only, to provide, or to procure that the purchaser of the policies provides, BoI Life (or other competent entity within the Bank of Ireland Group) with the information necessary to enable BoI Life (or other competent entity within the Bank of Ireland Group) to continue to make the calculations required and that BoI Life (or other competent entity within the Bank of Ireland Group) will continue to make the calculations (having obtained all the relevant data) as if such BoI Life Asset Disposal Event had not occurred.

Bank of Ireland will undertake in the General Partner Keepwell Agreement that, following a BoI Life Disposal Event or a BoI Life Asset Disposal Event, it will make all commercially reasonable efforts to obtain specific performance against the purchaser or other person who gives the Post-Sale Covenant where the purchaser or such person does not comply with the Post-Sale Covenant.

**Partial Sale:**

A "Partial Sale Event" will occur if either of the two following tests are met:

- (a) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the commencement of the Amortisation Period is less than 50 per cent. of the Projected VIF at the commencement of the Amortisation Period (and greater than zero); or
- (b) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the prior Annual Determination Date is less than 50 per cent. of the Projected VIF as at such Annual Determination Date (and greater than zero).

If a Partial Sale Event occurs:

- (a) in the Pre-Amortisation Period, on the Annual Determination Date immediately following such transfer(s) the procedure for adding Additional Policies would be applied. If the result is that an Amortisation Event would occur (c) below will apply;
- (b) in the Pre-Amortisation Period, if, following such transfer(s) the procedure for adding Additional Policies has been followed and an Amortisation Event does not occur, Additional Policies will be added in accordance with the description in "*Description of Dynamic Defined Block – Inclusion of Additional Policies in the Dynamic Defined Block*";
- (c) in the Amortisation Period:
  - (i) an amount equal to the Insurance VIF Sale Proceeds will be determined and will be added to the Annual Recourse Insurance Cashflow Amount; and
  - (ii) an amount equal to the Savings VIF Sale Proceeds will be determined and will be added to the Annual Recourse Savings Cashflow Amount (and accordingly shall be added to the Savings Cashflow Tracking Account).

If the Partial Sale Event occurs in the Amortisation Period (or causes the Amortisation Period to occur) and if the sum of the Insurance VIF Sale Proceeds



and the Savings VIF Sale Proceeds is less than the sum, as at the immediately preceding Annual Determination Date, of the Insurance VIF and Savings VIF in respect of the Policies which have been transferred since such immediately preceding Annual Determination Date, Additional Policies (if any are available) shall be included (to the extent that they have not previously been included) in the Dynamic Defined Block on the Annual Determination Date first following the transfer having a projected value-in-force at least equal to the deficit. In the event that there are no, or insufficient Additional Policies, Additional Policies will be added to the Dynamic Defined Block to the extent available (whether at the current time or at any future time), but there will be no further compensating arrangement for any remaining deficit.

For this purpose, Bank of Ireland will undertake to act in good faith to make Additional Policies available for the purposes of making additions to the Dynamic Defined Block. In those circumstances where BoI Life sells, reinsures, securitises or otherwise disposes of the control or economic interests in any of its policies, Bank of Ireland will covenant to ensure that BoI Life continues to calculate the Annual Recourse Cashflow Amount, Projected VIF and other relevant calculations, through either retaining the data required to calculate them or requiring a counterparty to provide such data (and such policies are serviced as if they had not been so sold, reinsured, securitised or otherwise disposed of as described above), to the extent that such policies are required, in addition to the other potentially available Additional Policies, to maintain the ratio of Projected VIF to the outstanding principal balance of the Notes at a level no lower than the ratio immediately prior to the relevant disposal.

**Final Redemption or distribution:**

The IL Loan will be redeemed and cancelled on the Distribution Payment Date falling in July 2032 (the “**Final Redemption Date**”) for no payment (other than any amounts determined to be payable or described above as payable on such date).

No distribution of profit or otherwise will be made on the SLLPI following the Distribution Payment Date falling in July 2032 (other than payment of the SLLPI Capital Contribution on dissolution of the Limited Partnership together, on dissolution, with up to a further €1,000).

**Additional Amounts:**

If withholding or deduction from any payment in respect of the IL Loan or the SLLPI is required by law for any tax, the Issuer, as the IL Lender and

holder of the SLLPI, will be entitled under the IL Loan and the SLLPI (subject to certain exceptions) to receive additional amounts from the Limited Partnership in order that the net amount received will equal the amount that would have been received in the absence of the withholding or deduction. The Issuer will undertake with the Limited Partnership to use all reasonable endeavours to recover such amount and will pay to the Limited Partnership the amount so recovered in accordance with the Priority of Payments. Prior to a Downgrade Direction Event occurring, the Support Agreement will provide funds (to the extent the Limited Partnership's assets are otherwise insufficient) to enable such additional amounts to be paid. After a Downgrade Direction Transfer Date, the Support Agreement will provide funds (to the extent the Limited Partnership's assets are otherwise insufficient) to enable such additional amounts to be paid to the extent that they were payable prior to the Downgrade Direction Transfer Date.

## **SUPPORT AGREEMENT**

### **Support Agreement:**

On the Closing Date, Bank of Ireland will enter into a Support Agreement (the "Support Agreement") with, *inter alios*, the General Partner on behalf of the Limited Partnership, Ambac and the Security Trustee. Under the Support Agreement, Bank of Ireland will agree that it will make certain payments as follows to the Limited Partnership.

Prior to the first Downgrade Direction Transfer Date, the Support Provider will:

- (a) pay to the Limited Partnership an amount equal to the costs, expenses, taxes and other liabilities of the Limited Partnership (other than any amounts payable under or in respect of the IL Loan or the SLLPI or in respect of any other distributions of profit to any partner) on or before the date such cost, expense, tax or liability falls due for payment;
- (b) pay to the Limited Partnership on or before the date on which the same are incurred (i) an amount in respect of any break costs on any investment of the Limited Partnership at the time such break costs are incurred; (ii) an amount in respect of any withholding for or on account of tax in respect of any Permitted Investment of the Limited Partnership; and (iii) any Additional Amount which the

Limited Partnership is required to pay on the IL Loan or the SLLPI; and

- (c) ensure that the Limited Partnership has sufficient funds on each due date to pay any amounts required to be paid on the IL Loan or as distributions in respect of the SLLPI when due (including to the extent not paid under (b) any Additional Amounts (as defined in, respectively, the IL Loan and the SLLPI) required to be paid in respect thereof).

On and following the first Downgrade Direction Transfer Date (see below), the Support Provider will:

- (a) pay to the Limited Partnership an amount equal to the costs, expenses, taxes and other liabilities of the Limited Partnership (other than any amounts payable under or in respect of the IL Loan or the SLLPI or in respect of any other distributions of profit to any partner) on or before the date such cost, expense or liability falls due for payment (including the costs (but excluding, for the avoidance of doubt, the acquisition cost) and expenses incurred by the Limited Partnership in respect of the reinvestment of the Limited Partnership's investments in replacement Permitted Investments pursuant to the direction in the Downgrade Direction Notice) but excluding the costs, losses, liabilities and expenses referred to in (c)(y) below;
- (b) pay to the Limited Partnership, on or before the date on which the same are incurred, an amount in respect of any Additional Amounts payable by the Limited Partnership under the IL Loan or the SLLPI following a Downgrade Direction Transfer Date but only to the extent that equivalent Additional Amounts would have been payable if the Limited Partnership had continued to hold the assets that it was holding (the "Pre-DDE Assets") immediately prior to the Downgrade Direction Transfer Date; and
- (c) ensure that the Limited Partnership has sufficient funds on each due date to pay any amounts required to be paid on the IL Loan or as distributions in respect of the SLLPI when due (excluding, save as provided in (b), any Additional Amounts (as defined in, respectively, the IL Loan and the SLLPI)) less an amount equal on each Distribution

Payment Date to the sum of (x) any Replacement Deposit Bank Deficiency in respect of such Distribution Payment Date and (y) any costs, losses, liabilities and expenses suffered or incurred by the Limited Partnership that are suffered or incurred as a result solely of being invested in the replacement Permitted Investments which would not have been suffered or incurred if the Limited Partnership had continued to hold the Pre-DDE Assets (each a "**Post-DDE Loss Amount**"); and

- (d) on the date on which the investments of the Limited Partnership are reinvested in replacement Permitted Investments, pay to the Limited Partnership an amount equal to the Top Up Payment, which shall be invested as directed pursuant to the Downgrade Direction Notice.

The effect of the difference between the Support Provider's obligations before a Downgrade Direction Transfer Date and its obligations after a Downgrade Direction Transfer Date is that, where a shortfall in the funds of the Limited Partnership on a Distribution Payment Date is caused by the amounts received from the replacement Permitted Investments being less than the amounts which would have been received had the Limited Partnership remained invested in the Permitted Investments held immediately prior to the Downgrade Direction Transfer Date, the Noteholders may receive less than would otherwise have been the case and the Support Provider shall have no obligation to pay to the Limited Partnership any amount in respect of such shortfall. The General Partner will use all reasonable efforts to realise amounts from its investments for the purposes of the performance of its obligations on such Distribution Payment Date so as to avoid or minimise any Replacement Deposit Bank Deficiency or to maximise any Replacement Deposit Bank Surplus. If ultimately there is an insufficiency when the Limited Partnership has no further investments, the amount deferred and unpaid accrued interest will be written off.

The "**Top Up Payment**" broadly reflects the difference between the value of the investments of the Limited Partnership following the transfer pursuant to the Downgrade Direction Notice and what the value of those investments would have been had the Limited Partnership remained invested in the Floating Rate Deposit and the Fixed Rate Deposit.

In the Support Agreement, each of the Limited Partnership (acting through its General Partner) and the General Partner will covenant with Ambac and the Security Trustee that, as soon as practicable and in any event within 30 days of receiving a Downgrade Direction Notice given by Ambac (if it is the Controlling Creditor) or the Security Trustee (if Ambac is no longer the Controlling Creditor), acting on the instructions of the Note Trustee, it will use all reasonable endeavours to comply with the notice by realising or otherwise disposing of the Limited Partnership's investments and investing the proceeds of such realisations or disposals in replacement Permitted Investments as directed. If the General Partner fails to comply with the Downgrade Direction Notice by the end of the 30-day period, Ambac may (if it is the Controlling Creditor) and the Security Trustee shall (if Ambac is not the Controlling Creditor) under and pursuant to an irrevocable power of attorney granted to each by the General Partner (on behalf of the Limited Partnership and on its own behalf) for this purpose (the "Investment Powers of Attorney"), arrange (or, in the case of the Security Trustee, delegate the powers conferred on it to an appropriate delegate to arrange) for the realisations or disposals to be made and the investment of the proceeds of such realisation or disposal in the replacement Permitted Investments (in the case of the Security Trustee and transfer of the Deposits, in accordance with the Deposits Policy, and, in the case of the realisations or disposals and investment of the proceeds of such realisations or disposals, at the direction of the Note Trustee with the sanction of holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or of an Extraordinary Resolution of the holders of the Most Senior Class).

Bank of Ireland will covenant in the Support Agreement that, until seven days following the earlier of (i) the repayment in full of the outstanding IL Loan and there being no balance on the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account and (ii) the Maturity Date, it will not take any capital or profits out of the General Partner (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid).

Each of the Support Provider, Ambac and the Security Trustee (as trustee on behalf of the Secured Creditors) will agree in the Support Agreement that it will not at any time institute against the General Partner or the Limited Partnership, or join in any institution against the General Partner or the Limited

Partnership of, any bankruptcy, reorganisation, arrangement, examinership, insolvency, winding-up or liquidation proceedings or other proceedings under any applicable bankruptcy or similar law in connection with any obligations of the General Partner or Limited Partnership, save for lodging a claim in the liquidation of the General Partner or the Limited Partnership which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the General Partner or the Limited Partnership. In addition, each of Bank of Ireland, Ambac and the Security Trustee will agree, to the extent permitted by applicable law, not to seek the dissolution of the Limited Partnership.

**Dividend Stopper:**

Bank of Ireland will covenant in the Support Agreement that it (i) will not declare or pay any distribution or dividend or make any other payment on any of its ordinary stock, (ii) will procure that no distribution, dividend or other payment is made on any of its ordinary stock, and (iii) will not redeem, purchase, cancel, reduce or otherwise acquire any of its ordinary stock (provided that the foregoing shall not prevent BoI Life from acquiring ordinary stock of Bank of Ireland as part of assets allocated in part or in whole to liabilities to policyholders or any other member of the Group from acquiring ordinary stock on behalf of its clients as part of its asset management or other similar business) in each case in the period (the “**Dividend Stopper Period**”) after the occurrence of any of the following events until the earlier of the Dividend Stopper Remedy Date and the Distribution Payment Date falling in July 2032. These events (each a “**Dividend Stopper Event**”) are:

- (a) the Limited Partnership fails to pay amounts due on the IL Loan or the SLLPI after the expiry of any applicable grace periods provided (i) such failure is not because of a Replacement Deposit Bank Deficiency or Post-DDE Loss Amount and (ii) that no Force Majeure Event is then subsisting;
- (b) the General Partner does not make a Savings Surplus Election in respect of an Annual Determination Date (or a date treated as an Annual Determination Date for the purposes of making a Savings Surplus Election) on or before such date, unless (i) the making of a Savings Surplus Election in respect of such date would have no effect on the amount payable by the Limited Partnership in respect of the SLLPI on that Annual Determination Date or any of the Distribution Payment

Dates falling on or prior to the next Annual Determination Date or (ii) such date is an Acceleration Date in respect of a Dissolution Event either (x) arising from Ambac taking or initiating any action or proceeding for the dissolution of the Limited Partnership (including, without limitation, by rescission or repudiation) or (y) arising from any of the Issuer, the Security Trustee or other Secured Creditor taking or initiating any action or proceeding for the dissolution of the Limited Partnership as a result of a direction of or of encouragement given by Ambac at a time when it is the Controlling Creditor; or

- (c) provided that no Force Majeure Event has occurred and is continuing and no BoI Life Disposal Event has occurred, BoI Life either (i) wilfully refuses to calculate the Annual Recourse Insurance Cashflow Amounts, the Annual Recourse Savings Cashflow Amount, the Projected VIF, the Projected Insurance VIF, the Projected Savings VIF, the Projected Balance Sheet Insurance VIF or the Projected Surplus under the Calculation Agreement (for the avoidance of doubt, inaccurate calculations shall not constitute wilful refusal unless deliberately inaccurate) or (ii) unreasonably and in bad faith prevents the Relevant Person or an Independent Actuary from accessing the information necessary for it to make such calculations for a period of at least five Business Days (provided that the Dividend Stopper will not apply to the extent that, following a BoI Life Asset Disposal Event, BoI Life's failure is attributable only to the performance or failure to perform of the purchaser).

For these purposes, a “Force Majeure Event” will occur if there is any delay in performing or inability to perform an obligation if the same is due to act of God or public enemy, war, insurrections or riots, fire, flood, explosion, earthquake, accident, epidemic or quarantine restrictions or to any acts of government or of any governmental or regulatory or fiscal agency, or to strikes or labour troubles causing cessation, slow down or interruption of work, to the extent that it is beyond the reasonable foresight and control of the party concerned, and to the extent that the party concerned could not with reasonable endeavours nevertheless perform the obligation.

The “Dividend Stopper Remedy Date” is:

- (a) in the case of the Dividend Stopper Event in (a), the date on which the Limited Partnership pays such amount together with any accrued interest on it;
- (b) in the case of the Dividend Stopper Event in (b), the date on which the General Partner makes (or is deemed to make) a Savings Surplus Election and amounts which would have been payable had such an election been made are paid together with the amount of notional interest accruing thereon; and
- (c) in the case of the Dividend Stopper Event in (c), the date on which BoI Life complies with its obligations under the Calculation Agreement to calculate the Annual Recourse Insurance Cashflow Amount, the Annual Recourse Savings Cashflow Amount, the Projected Insurance VIF, the Projected Savings VIF, the Projected Balance Sheet Insurance VIF and the Projected Surplus or, as applicable, permits access to the Relevant Person or Independent Actuary and, in either case, amounts which would have been payable had BoI Life complied with such obligations are paid together with the amount of interest accruing thereon.

If a Bank of Ireland Insolvency Event occurs, the Support Agreement will terminate, in which event the ability of the Limited Partnership to make payments on the IL Loan and SLLPI will be limited to its investments. In such circumstances, if the Limited Partnership's investments are used to pay expenses or liabilities of the Limited Partnership or unexpected expenses or liabilities of the Issuer, the Limited Partnership may not have sufficient remaining assets to make payment as required in respect of the IL Loan and the SLLPI. If Bank of Ireland fails to comply with the terms of the Dividend Stopper, a Savings Surplus Election will be deemed to be made, but only as respects such part of the balance of the Savings Cashflow Tracking Account as equals the aggregate amount paid by way of dividend or otherwise distributed or the value of the shares redeemed, repurchased or otherwise acquired in breach of the Dividend Stopper.

Breach of the Dividend Stopper is an Acceleration Event (see "*Acceleration of the IL Loan and Distributions under the SLLPP*" above).



## LIMITED PARTNERSHIP INVESTMENT AND THE DEMAND DEPOSITS

### General Investment, Powers of the Limited Partnership:

The business of the Limited Partnership is to provide finance and financial support to Bank of Ireland and its subsidiaries and to invest in Permitted Investments and to invest its assets with a view to receiving income in excess of expenditure, thereby enabling it to distribute profits in accordance with the Limited Partnership Agreement. The initial investments on the Closing Date will consist of the Floating Rate Deposit and the Fixed Rate Deposit. Replacement partnership assets may consist of any Permitted Investment.

A “**Permitted Investment**” means any euro-denominated investment that is one or more of the following: (i) a deposit (including the Deposits) with a branch of Bank of Ireland in Ireland or the United Kingdom or a branch of Bank of Ireland (IOM) Limited in the Isle of Man provided that Bank of Ireland has guaranteed its obligations and provided that it gives notice confirming that it will recognise and comply with powers exercised pursuant to the Investment Powers of Attorney, in each case ranking *pari passu* with ordinary depositors of such institution, (ii) commercial paper or other money market debt instruments with a maturity of not more than 270 days from the date of issuance and having a rating at the time of such investment of “A-1+” by S&P and “P-1” by Moody’s, (iii) marketable debt securities listed on a regulated OECD exchange and issued by any government of any member state of the European Union or any agency having a guarantee by or the full faith and credit of any government of any member state of the European Union that has a long-term senior debt rating of “AAA” by S&P and “Aaa” by Moody’s which have a legal maturity earlier than the Maturity Date, provided that, in the case of (ii) and (iii) above, such investments shall be held with Bank of Ireland Securities Services Limited as custodian, acting through a branch in Ireland, the Isle of Man or the United Kingdom, and that such custodian gives notice confirming that it will recognise and comply with powers exercised pursuant to the Investment Powers of Attorney, and (iv) one non-voting class “A” share of €1.00 nominal amount in BoI Insurance Limited.

Following a Downgrade Direction Event, “**Permitted Investment**” will also include the following, provided the same has been approved by Ambac (where it is the Controlling Creditor) or (other than deposits with the Nominated Deposit Banks (as defined below)) by the Note Trustee (where Ambac is

not the Controlling Creditor) and are entered into on arm's length terms: (a) reinvestment agreements (so long as payments under any such reinvestment agreement are not subject to withholding taxes) issued by any bank or other institution (if treated as a deposit by such bank or other institution), or a registered reinvestment agreement issued by any insurance company or other corporation or entity organised under the laws of the United States of America or any state thereof, in each case, that has a credit rating of not less than "Aaa" by Moody's and not less than "AAA" by Standard & Poor's; provided that if the issuer thereof has a short-term rating from Standard & Poor's or Moody's, the issuer thereof must also have at the time of such investment a short-term credit rating of not less than "P-1" by Moody's and not less than "A-1" by Standard & Poor's; (b) any other investment similar to those described in (a) above that each of the Rating Agencies has confirmed in writing may be included as a Permitted Investment without resulting in a qualification, downgrade or withdrawal of any of its then current ratings on the Notes; and (c) any deposit with a Nominated Deposit Bank (being, initially, one of the following: Lloyds TSB Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Citibank N.A. and Bank of America N.A.) or any other bank having the Required Ratings which is selected by Ambac (if it is the Controlling Creditor) provided that Permitted Investments shall not include: (I) any interest-only security or principal-only security, (II) any security purchased at a price in excess of 100% of the par value thereof or (III) any security the rating of which by Standard & Poor's includes the subscript "p", "pi", "q", "r" or "t".

**The Floating Rate Deposit:**

As an initial investment, the Limited Partnership will deposit the proceeds of the IL Loan into an interest-bearing account in its name at the Deposit Bank (the "**Floating Rate Deposit Account**") pursuant to an agreement to be entered into between the Deposit Bank and the Limited Partnership for such purpose (the "**Floating Rate Deposit Agreement**").

Under the Floating Rate Deposit Agreement interest will, while Bank of Ireland is the Deposit Bank, accrue on the funds in the Floating Rate Deposit Account ("**Floating Rate Deposit**") at a floating rate equal to the linear interpolation of three-month EURIBOR and four-month EURIBOR for the period to the first Interest Payment Date and thereafter at three-month EURIBOR.

If the Deposit Bank is a financial institution other than Bank of Ireland, interest will accrue on the funds

deposited with it at the rate determined pursuant to such subsequent deposit.

**The Fixed Rate Deposit:**

The Limited Partnership will also deposit an amount equal to the dividend payment from BoI Insurance Limited into an interest-bearing account in its name at the Deposit Bank (the “**Fixed Rate Deposit Account**” and, together with the Floating Rate Deposit Account, the “**Deposit Accounts**”) pursuant to an agreement to be entered into between Bank of Ireland and the Limited Partnership for such purpose (the “**Fixed Rate Deposit Agreement**” and, together with the Floating Rate Deposit Agreement, the “**Deposit Agreements**”). The Fixed Rate Deposit has no amortisation profile and will incur no break costs if repaid in whole or in part prior to its scheduled repayment date in July 2032.

Interest will accrue on the funds in the Fixed Rate Deposit Account (the “**Fixed Rate Deposit**” and, together with the Floating Rate Demand Deposit, the “**Deposits**”) at a fixed rate of 4.43 per cent. *per annum*.

If the Deposit Bank is a financial institution other than Bank of Ireland, interest will accrue on the funds deposited with it at the rate determined pursuant to such subsequent deposit.

**Interest on the Deposits:**

Interest on the Deposits will be due and payable to the Limited Partnership on each Distribution Payment Date.

**Principal Withdrawals:**

The Limited Partnership is expected to make withdrawals from the Floating Rate Deposit Account to fund repayments to the Issuer (as Lender) of the IL Loan and the payments to the Issuer (as Limited Partner) on the SLLPI Loan Reduction Profit Amounts as set out in the Limited Partnership Agreement. The Fixed Rate Deposit will not have an amortisation schedule. The General Partner is expected to require it to be repaid in part on each Distribution Payment Date to enable the Limited Partnership to fund the Insurance Spread and Savings Spread payable on that Distribution Determination Date to the extent not funded from interest received on such Distribution Payment Date on such Fixed Rate Deposit. The Fixed Rate Deposit will not be subject to break costs.

**Reinvestment in Permitted Investments following a Downgrade Direction Event:**

If the senior, unsecured and unguaranteed long-term debt obligations of Bank of Ireland or of any person by whom the obligations of Bank of Ireland are unconditionally and irrevocably guaranteed are rated

below "A2" by Moody's or "A-" by S&P (the "Required Ratings"), then the Limited Partnership may, and will if directed by Ambac (as long as Ambac is the Controlling Creditor) or, subject to receipt by it of written notice that such obligations are rated below the Required Ratings, by the Security Trustee in accordance with the Deposits Policy (if Ambac is no longer the Controlling Creditor), withdraw the funds from the Deposit Accounts (or from wherever they are then invested) and invest them in Permitted Investments nominated by Ambac (if it is the Controlling Creditor) or the Security Trustee (if Ambac is not the Controlling Creditor) (in the case of the Security Trustee, in accordance with the Deposits Policy if such investments are Deposits or as directed by the Note Trustee, itself as directed by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or by an Extraordinary Resolution of the holders of the Most Senior Class). The obligations of Bank of Ireland under the Support Agreement are more restricted if Ambac or the Security Trustee so directs the General Partner and as a result the funds available to the Limited Partnership may be less than they would have been had Ambac or the Security Trustee not given such a direction and interest and principal on the IL Loan and/or distributions on the SLLPI may be reduced by the Replacement Deposit Bank Deficiency (see "*Support Agreement*" above).

The Deposits Policy will apply where Ambac is not the Controlling Creditor and the Security Trustee is exercising the right to require reinvestment of the assets of the Limited Partnership following the obligations of Bank of Ireland ceasing to have the Required Ratings. "**Deposits Policy**" means the policy pursuant to which the Security Trustee will, itself or acting through an agent appointed by it, direct the payment into one or more interest bearing deposit accounts with Lloyds TSB Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Citibank N.A. or Bank of America N.A. (each a "**Nominated Deposit Bank**"), depositing such amounts with the first named provided (i) it has the Required Ratings or its obligations are unconditionally and irrevocably guaranteed by a person with the Required Ratings and (ii) does not decline to accept such deposits on terms substantially equivalent (except as to rate of return) to the Fixed Rate Deposit and the Floating Rate Deposit; if the first named fails to meet the criteria in (i) and (ii), the deposits will be made with the second on the list, and so on. If a bank (or its guarantor, as applicable) on the list ceases to have the Required Ratings it may be replaced by the Security Trustee acting on the instructions of the Controlling Creditor

(such replacement becoming a Nominated Deposit Bank) with a bank that does (or is guaranteed by a financial institution that does) have the Required Ratings.

Following the Downgrade Direction Event, Ambac (as long as Ambac is the Controlling Creditor) or (thereafter) the Security Trustee (in accordance with the Deposits Policy if such investments are Deposits or as directed by the Note Trustee, itself as directed by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or by an Extraordinary Resolution of the holders of the Most Senior Class) may give subsequent directions that the assets of the Limited Partnership be invested in replacement Permitted Investments.

Except in respect of the transfer of the Deposits in accordance with the Deposits Policy, neither the Security Trustee nor the Note Trustee shall be obliged to give any direction, instruction or approval in respect of the realisation and/or re-investment of investments of the Limited Partnership unless, in the case of the Security Trustee, it shall have been directed by the Note Trustee, and, in the case of the Note Trustee, its instructions have been sanctioned by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or an Extraordinary Resolution by the holders of the Most Senior Class, and in each case indemnified and/or secured to its satisfaction.

## **AMBAC FINANCIAL GUARANTEE**

### **Ambac Financial Guarantee:**

On the Closing Date, Ambac will provide an unconditional and irrevocable financial guarantee (the “**Ambac Financial Guarantee**”) in favour of the Note Trustee on behalf of the Class A-1 Noteholders from time to time pursuant to which Ambac will guarantee the payment of Scheduled Interest and Ultimate Principal (as defined in the Ambac Financial Guarantee) on the Class A-1 Notes. For the avoidance of doubt, the Ambac Financial Guarantee will not apply in respect of the Class A-2 Notes.

### **Ambac Liquidity Facility Financial Guarantee:**

On the Closing Date, Ambac will provide an unconditional and irrevocable financial guarantee to the Liquidity Facility Provider (the “**Ambac Liquidity Facility Financial Guarantee**”) pursuant to which Ambac will guarantee certain of the obligations of the Issuer to the Liquidity Facility Provider under the Liquidity Facility Agreement.

The Ambac Liquidity Financial Guarantee will not apply to any replacement Liquidity Facility without the prior written consent of Ambac.

**Ambac Fee Letter:**

On or before the Closing Date, the Issuer and Ambac will enter into a fee letter (the “Ambac Fee Letter”) pursuant to which the Issuer will agree to pay to Ambac the fees under the Ambac Fee Letter, on the terms as set out therein, in consideration for the provision by Ambac of the Ambac Financial Guarantee and the Ambac Liquidity Facility Financial Guarantee.

**Financial Guarantee  
Reimbursement Agreement:**

On or about the Closing Date, the Issuer and Ambac will enter into the Financial Guarantee Reimbursement Agreement under which the Issuer will be obliged, *inter alia*, to reimburse Ambac in respect of any payments made by Ambac under the Ambac Financial Guarantee and the Ambac Liquidity Facility Financial Guarantee and will be obliged to pay any fees and expenses of Ambac in respect of the Ambac Financial Guarantee and the Ambac Liquidity Facility Financial Guarantee.

The Issuer’s obligation to reimburse Ambac for payments made by Ambac under the Ambac Financial Guarantee (other than in respect of principal of the Class A-1 Notes) and the Ambac Liquidity Facility Financial Guarantee will be satisfied in priority to payments of interest to the Class A-2 Noteholders and payments of principal to the Class A-1 Noteholders and the Class A-2 Noteholders in accordance with the relevant Priority of Payments.

The Issuer’s obligation to reimburse Ambac for payments made under the Ambac Financial Guarantee in respect of principal of the Class A-1 Notes will be satisfied in priority to payments of principal to the Class A-2 Noteholders in accordance with the Pre-Enforcement Priority of Payments and in priority to payments of interest and principal to the Class A-2 Noteholders in accordance with the Post-Enforcement Priority of Payments.

Ambac will be subrogated to the rights of the Class A-1 Noteholders and the Liquidity Facility Provider against the Issuer in respect of any payments made under the Ambac Financial Guarantee and the Ambac Liquidity Facility Financial Guarantee, respectively. Payments due to Ambac pursuant to the Financial Guarantee Reimbursement Agreement will be paid in accordance with the terms (including the relevant Priority of Payments) of the Issuer Deed of Charge

and such payments will be limited recourse obligations of the Issuer.

## **OTHER AGREEMENTS**

### **Cash Management Agreement:**

On or before the Closing Date, the Issuer will enter into an agreement (the “**Cash Management Agreement**”) with the Issuer Cash Manager pursuant to which it will appoint the Issuer Cash Manager to provide the Issuer certain services in connection with the payment of amounts from the Issuer Accounts.

### **Corporate Services Agreement:**

On or before the Closing Date, the Issuer will enter into an agreement (the “**Corporate Services Agreement**”) with the Issuer Corporate Services Provider pursuant to which the Issuer Corporate Services Provider will provide to the Issuer certain services in connection with the day-to-day administration of the Issuer.

### **GP Forward Subscription Agreement:**

On or before the Closing Date, Bank of Ireland will enter into a forward subscription agreement (the “**GP Forward Subscription Agreement**”) with the General Partner pursuant to which it will agree to purchase one or more additional shares in the General Partner (on the earlier of the Maturity Date and the date on which there is a balance of zero on the IL Loan Account and on the Deficit Account, the Missed Spread Account and the Missed SLLPI EURIBOR Account) for an amount equal to the product of 101 per cent. and the aggregate amount paid by way of distribution on the SLLPI plus interest at EURIBOR accruing on a quarterly compounding basis from the date of the relevant payment. See further “*The General Partner Keepwell Agreement and the Forward Subscription Agreement*” below.

### **General Partner Keepwell Agreement:**

On the Closing Date, Bank of Ireland will enter into a keepwell agreement (the “**General Partner Keepwell Agreement**”) with, *inter alios*, the General Partner, pursuant to which if at any time the General Partner (as opposed to the Limited Partnership) may have insufficient cash or other liquid assets to meet its payment obligations to any person as they fall due, Bank of Ireland will make available to the General Partner (either by way of a capital contribution or a subscription for shares) funds sufficient to enable the General Partner to satisfy such payment obligations in full as they fall due. See further “*The General Partner Keepwell Agreement and the Forward Subscription Agreement*” below.

## RISK FACTORS

*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 and ensure they understand the detailed information set out in this Prospectus and reach their own views prior to making any investment decision.*

### General

It is intended that the Issuer will advance the IL Loan and acquire the SLLPI which have certain risk characteristics, some of which are described below and elsewhere in this document. There can be no assurance that the Issuer's investments will be successful, that the Noteholders will receive the full amounts payable by the Issuer under the Notes or that they will receive any return on their investment in the Notes. Prospective investors are therefore advised to review this entire Prospectus carefully and should consider, among other things, the risk factors set out in this section before deciding whether to invest in the Notes. Except as is otherwise stated below, such risk factors are generally applicable to both Classes of Notes, although the degree of risk associated with each Class of Notes will vary in accordance with, *inter alia*, the position of such Class of Notes in the relevant Priority of Payments. In particular, (i) the Class A-1 Notes benefit from the Ambac Financial Guarantee, (ii) payments of interest in respect of the Class A-1 Notes are higher in the Priority of Payments than payments of interest in respect of the Class A-2 Notes and (iii) payments of principal in respect of the Class A-1 Notes are higher in the Priority of Payments than payments of principal in respect of the Class A-2 Notes. In the Pre-Enforcement Priority of Payments interest on all Notes is payable before principal (except on the Maturity Date, on which date payment of interest and principal on the Class A-1 Notes will be payable prior to any interest or principal on the Class A-2 Notes) whereas in the Post-Enforcement Priority of Payments interest and principal in respect of the Class A-1 Notes are payable prior to any interest or principal in respect of the Class A-2 Notes.

None of the Lead Managers, Ambac, the Note Trustee, the Security Trustee, Bank of Ireland, BoI Life or the General Partner undertake to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Lead Managers, Ambac, the Note Trustee, the Security Trustee, Bank of Ireland, BoI Life or the General Partner which is not included in this Prospectus.

### Transaction Risks

#### Reliance of Class A-1 Noteholders on Ambac

To the extent that the Issuer fails to make payments of Scheduled Interest (as defined in the Ambac Financial Guarantee) and Ultimate Principal (as defined in the Ambac Financial Guarantee) due under the Class A-1 Notes, the payment of the Guaranteed Amounts (as defined in the Ambac Financial Guarantee) will be dependent on, *inter alia*, Ambac performing its obligations under the Ambac Financial Guarantee. The Ambac Financial Guarantee will not guarantee the Class A-2 Notes or any amounts other than the Guaranteed Amounts becoming payable under the Class A-1 Notes for any reason, including the early redemption of the Class A-1 Notes or an accelerated payment following the occurrence of an Acceleration Event under the IL Loan and of an Insolvency Event in respect of the Issuer which is ongoing. Ambac's obligations will be 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 Class A-1 Noteholders will not be affected by the risks related to the negative performance of the Issuer, the Limited Partnership or the Dynamic Defined Block. In the absence of payment under the Ambac Financial Guarantee, the Class A-1 Noteholders will directly bear the risks associated with the negative performance of the Issuer, the General Partner, the Limited Partnership, Bank of Ireland, BoI Life and the Dynamic Defined Block.



## **Risk Factors relating to Ambac**

### *Ratings of the Class A-1 Notes affected by Ambac*

The ratings of the Class A-1 Notes are based primarily on the Ambac Financial Guarantee issued by Ambac with respect to the Class A-1 Notes. Pursuant to the Ambac Financial Guarantee, Ambac guarantees Scheduled Interest and Ultimate Principal under the Class A-1 Notes. The payment of the Guaranteed Amounts will therefore depend upon Ambac performing its obligations under the Ambac Financial Guarantee. The likelihood of payment of the Guaranteed Amounts will depend upon the creditworthiness of Ambac. Consequently, investors in the Class A-1 Notes are relying not only on the creditworthiness of the Issuer, but also on the creditworthiness of Ambac to perform its obligations under the Ambac Financial Guarantee. The insolvency of Ambac or a default by it under the Ambac Financial Guarantee would adversely affect the likelihood of investors in the Class A-1 Notes receiving payments of Scheduled Interest and Ultimate Principal and could result in a withdrawal or downgrade of the ratings of the Class A-1 Notes.

### *Reliance by Ambac on Ambac Assurance*

The ratings of Ambac are based primarily on the ratings of and the capital support and reinsurance provided by Ambac Assurance Corporation (“**Ambac Assurance**”) (as defined in “*Ambac Assurance Corporation*” below) to Ambac pursuant to the Ambac Support Agreements (see “*Relationship between Ambac Assurance UK Limited and Ambac Assurance Corporation*” below). Any downgrade of the ratings of Ambac Assurance would very likely result in a downgrade of the ratings of Ambac, which could, in turn, have a material adverse effect on Ambac’s ability to perform its obligations under the Ambac Financial Guarantee.

The Ambac Support Agreements are not, and should not be regarded as, guarantees by Ambac Assurance of the payment of any indebtedness, liability or obligations of the Issuer, of the Class A-1 Notes or of the Ambac Financial Guarantee, and do not confer any rights on third parties. The Class A-1 Noteholders will have no recourse against Ambac Assurance or any other affiliate of Ambac.

### *Regulation*

Ambac is authorised by the FSA to carry out and effect “credit”, “suretyship” and “miscellaneous financial loss” insurance business in the United Kingdom and, pursuant to the EC third non-life insurance directive (No. 92/49/EEC), various European countries (such authorisations being the “**Insurance Business Authorisation**”).

Ambac’s Insurance Business Authorisation may be revoked, withdrawn or restrictively modified by the FSA. Such revocation, withdrawal or restrictive modification could have a material adverse impact on Ambac, including its ability to generate new business or increased costs of regulatory compliance.

### *Concentration of business*

Each of Ambac and Ambac Assurance is engaged exclusively in the business of writing financial guarantees (and in the case of Ambac Assurance, related lines of business), including in respect of securities sold in public offerings and private placements, and obligations under credit default swaps.

Although it is Ambac’s and Ambac Assurance’s policy to diversify and manage its exposures to single obligors and to particular business sectors, it may have individual large exposures to single obligors or particular business sectors; if a material adverse event or series of events occurs with respect to one or more of these concentrations that is more severe than the assumptions used by Ambac or Ambac Assurance, such event or series of events could result in losses to Ambac or Ambac Assurance and could harm Ambac’s or Ambac Assurance’s business.

### *Control by Ambac*

While the Ambac Financial Guarantee mitigates the credit risks which potential investors in the Class A-1 Notes would otherwise be exposed to, involvement of Ambac has certain consequences. For example, in certain circumstances, Ambac will have the right to exercise many of the discretions which would otherwise rest in the Note Trustee and the Security Trustee (including the discretion as to whether to call events of default or enforcement events or to accelerate payments of principal and interest or to exercise certain rights of the Issuer under the Transaction Documents, and in respect of which the Note Trustee might have sought the directions of the Class A-1 Noteholders). In addition, in the event that Ambac is required to make a payment under the Ambac Financial Guarantee, the Issuer will be required to reimburse Ambac and to pay various fees, costs and expenses to Ambac.

### *Acceleration of the Class A-1 Notes*

The terms of the Ambac Financial Guarantee provide that amounts of principal on any Class A-1 Notes which have become immediately due and payable (whether by virtue of acceleration, prepayment or otherwise) will not be treated as Guaranteed Amounts which are Due for Payment unless Ambac in its sole discretion elects so to do by notice in writing to the Note Trustee. If no such election is made, Ambac will continue to be liable to make payments of Guaranteed Amounts in respect of the Class A-1 Notes pursuant to the Ambac Financial Guarantee on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable.

### **Reliance on the Limited Partnership**

The principal assets of the Issuer are the IL Loan and the SLLPI. Payment of interest and repayment of principal on the Notes depend on the variable amount of the obligations of the Limited Partnership under the IL Loan and the amount of distributions required on the SLLPI and on the assets of the Limited Partnership available to pay such amounts. The Limited Partnership's obligations under the IL Loan and SLLPI (and therefore amounts available to pay interest and principal on the Notes) depend on, *inter alia*:

- (a) the amount of the Annual Recourse Insurance Cashflow Amount;
- (b) the credit balance on the Savings Cashflow Tracking Account and the General Partner electing to apply all or part of it in covering any balance on the Deficit Account or the Missed Spread Accounts or electing to pay EURIBOR accruing on such amounts (see "*Savings Surplus Election*" and "*General Partner's incentive to apply Savings Cashflow Tracking Account balance*" below); and
- (c) the deferral of amortisation (in whole or part) in the Pre-Amortisation Period as described in this Prospectus.

The quantum of such amounts depends on a variety of insurance and other risks, certain of which are summarised under "*Description of the Dynamic Defined Block*", in particular under "*Principal factors contributing to the emergence of the Annual Recourse Cashflow Amount*", "*Principal risks to the emergence of the Annual Recourse Cashflow Amount*" and "*Certain Risks in ascertaining Projected VIF*". In particular, as the quantum of the amounts payable on the IL Loan and the SLLPI is in general terms referenced to, amongst other things, the emergence of surplus on the Dynamic Defined Block, Noteholders, and Ambac to the extent of its obligations under the Ambac Financial Guarantee, will bear the risk of such surplus on the Dynamic Defined Block not emerging.

For so long as Bank of Ireland has the Required Ratings or the Limited Partnership has not been directed by Ambac or the Security Trustee to invest in other Permitted Investments (where Bank of Ireland no longer has the Required Ratings), the investments of the Limited Partnership are expected

to be debt obligations of the Bank of Ireland or certain members of its Group. Initially such investments will comprise the Deposits.

### **Reliance on Bank of Ireland**

The ability of the Issuer to pay interest and principal in respect of the Notes depends on the ability of the Limited Partnership to pay interest and principal in respect of the IL Loan and Distribution Amounts in respect of the SLLPI.

The ability of the Limited Partnership to pay interest and principal in respect of the IL Loan and Distribution Amounts in respect of the SLLPI depends, *inter alia*, on the performance of the assets of the Limited Partnership and the extent of, and performance by Bank of Ireland under, the Support Agreement (see "*Nature of the Support Agreement*" below) and the General Partner Keepwell Agreement (see "*Reliance on the General Partner*" below). The initial assets of the Limited Partnership are expected to consist, as at the Closing Date, of:

- (a) the Deposit Agreements (being unsecured debt obligations of Bank of Ireland); and
- (b) the Support Agreement (being unsecured obligations of Bank of Ireland).

For so long as the assets of the Limited Partnership consist of the Deposit Agreements, or other obligations of the Group, and the Support Agreement, the ability of the Issuer to pay interest and principal on the Notes is dependent on Bank of Ireland performing its obligations. The Limited Partnership's investments may also consist of Permitted Investments which may or may not be obligations of Bank of Ireland. The list of Permitted Investments is expanded following a Downgrade Direction Transfer Date, when Ambac (if it is the Controlling Creditor) or the Security Trustee (if Ambac is not the Controlling Creditor) (in accordance with the Deposits Policy if such investments are Deposits or as directed by the Note Trustee, itself as directed by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or by an Extraordinary Resolution of the holders of the Most Senior Class) may require that the Limited Partnership should invest its assets in replacement Permitted Investments.

If the assets of the Limited Partnership are required pursuant to the Support Agreement to be invested in replacement Permitted Investments by Ambac (if it is the Controlling Creditor) or the Security Trustee (if Ambac is not the Controlling Creditor) (in the case of the Security Trustee, in accordance with the Deposits Policy if such investments are Deposits or as directed by the Note Trustee, itself as directed by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or by an Extraordinary Resolution of the holders of the Most Senior Class) following a Downgrade Direction Event, the replacement asset(s) may pay less than would have been the case had they remained invested under the Deposit Agreements, in which event payments on the IL Loan or SLLPI may be deferred (and ultimately written off) (see "*Risks relating to insufficient return on the Limited Partnership's investments*" below) and the extent of the Support Agreement becomes more limited (see "*Nature of the Support Agreement*").

If, *inter alia*, the IL Loan is written down (for example, due to an IL Impairment) and there is a credit balance on the Savings Cashflow Tracking Account, or if there is a balance on, *inter alia*, the Deficit Account on which EURIBOR is accruing, such amounts will not be payable through distributions on the SLLPI unless the General Partner makes a Savings Surplus Election (see "*Savings Surplus Election*" below). If the General Partner does not make the Savings Surplus Election, Bank of Ireland may be subject to a Dividend Stopper. While this may result in Bank of Ireland seeking (as the ultimate parent of the General Partner) to procure that the Savings Surplus Election is made, there can be no assurance that this will be the case, in particular where Bank of Ireland would not in any event be paying dividends or where it is insolvent. However, where Bank of Ireland is being wound up, the General Partner is deemed to make Savings Surplus Elections, but only in respect of Annual Recourse Savings Cashflow Amounts added to the Savings Cashflow Tracking Account following such event.

If a Bank of Ireland Insolvency Event occurs, the Support Agreement will terminate, in which event the ability of the Limited Partnership to make payments on the IL Loan and SLLPI will be limited to its investments. In such circumstances, if the Limited Partnership's investments are used to pay expenses or liabilities of the Limited Partnership or unexpected expenses or liabilities of the Issuer, the Limited Partnership may not have sufficient remaining assets to make payment as required in respect of the IL Loan and the SLLPI.

Any change of law might result in Bank of Ireland's obligations under the Support Agreement becoming unenforceable. Such unenforceability is not an Acceleration Event, and could result in Noteholders not being paid in full.

#### **Reliance on the General Partner**

The General Partner is a special purpose company incorporated in the Cayman Islands and a wholly-owned subsidiary of Bank of Ireland. It will agree with Bank of Ireland, Ambac and the Security Trustee in the General Partner Keepwell Agreement not to carry on any business other than as general partner of the Limited Partnership and not to incur any indebtedness.

The Bank of Ireland will enter into the General Partner Keepwell Agreement under which it will agree that if the General Partner has insufficient cash or other liquid assets to meet its payment obligations as they fall due, then Bank of Ireland will make available to the General Partner, before the due date of any relevant payment obligation, funds sufficient to enable the General Partner to satisfy such payment obligations in full as they fall due. The General Partner will agree to use the funds made available to it by Bank of Ireland under the General Partner Keepwell Agreement solely for the satisfaction when due of such payment obligation.

Bank of Ireland has agreed in the General Partner Keepwell Agreement that it will not take or join any person in taking steps against the General Partner for the purpose of obtaining payment of any amount due from the General Partner and initiate or join any person in initiating any Insolvency Proceedings in relation to the General Partner or the appointment of an Insolvency Official in relation to the General Partner or in relation to the whole or any substantial part of the undertaking or assets of the General Partner.

Notwithstanding the foregoing, it is possible that creditors who are unpaid may seek to wind up the General Partner or place it into insolvency proceedings. The position of a limited partnership where the sole corporate general partner is subject to insolvency proceedings is not clear. It is likely that an application to the court could be made to dissolve the partnership. For the consequences of the Limited Partnership being dissolved, see "*Dissolution of the Limited Partnership*" below. If the Limited Partnership is dissolved the amount payable on repayment of the IL Loan and the Distribution Amount on the SLLPI are limited to the respective Liquidation Repayment and Liquidation Distribution, which may result in the sum of the aggregate principal repaid on the IL Loan and the SLLPI Loan Reduction Profit Amounts (including the Liquidation Repayment and the Liquidation Distribution) on the SLLPI being lower than the initial IL Loan advanced, as a result of which the Issuer may have insufficient funds to redeem the Notes.

In addition, if the General Partner fails to perform its obligations under the Limited Partnership Agreement or breaches its obligations, amounts which are due and payable by the Limited Partnership to the Issuer may be unpaid. See "*Nature of the Support Agreement*" below for a description of Bank of Ireland's obligations in such instances.

#### **Risks relating to BoI Life**

New Ireland Assurance Company plc, trading as Bank of Ireland Life, is an authorised life assurance company in Ireland. The Notes are not obligations of, or guaranteed by, BoI Life, but repayment of the Notes is contingent on, *inter alia*, sufficient surplus emerging on the Dynamic Defined Block of

business in future years and, to the extent that such surplus is surplus in respect of Savings Contracts, on the General Partner electing to apply such Savings Contracts surplus to the extent the surplus on Insurance Contracts is insufficient, as described in this Prospectus (see “*Description of the Dynamic Defined Block*” and “*Savings Surplus Election*” and “*General Partner’s incentive to apply Savings Cashflow Tracking Account balance*” below).

The terms of the Limited Partnership Agreement provide that Additional Policies may be, or may be required to be (for example, following a Partial Sale Event where the Insurance VIF Sale Proceeds and Savings VIF Sale Proceeds are less than the Insurance VIF and Savings VIF in respect of the policies transferred), added to the Dynamic Defined Block in certain circumstances. Such additions may not be possible if BoI Life is unable for any reason to or does not originate sufficient new unit-linked insurance business complying with the Eligibility Criteria.

Actions of BoI Life, and its financial position, solvency and solvency requirements, may affect the timing and/or amount of surplus which would otherwise have arisen on the Dynamic Defined Block (see “*Description of the Dynamic Defined Block – Principal factors contributing to the emergence of the Annual Recourse Cashflow Amount*”, “*Principal risks to the emergence of the Annual Recourse Cashflow Amount*” and “*Certain risks in ascertaining Projected VIF*” below). BoI Life has other business outside the Dynamic Defined Block and is expected to continue to originate new business. If BoI Life becomes financially impaired or insolvent, it is likely that policies would lapse at a faster rate than would otherwise be the case, as a result of which the amount of surplus arising on the Dynamic Defined Block may be less than would otherwise have been the case; and its financial impairment or insolvency could be expected to affect its ability to act as VIF Calculation Agent. Other actions may affect the speed at which policies within the Dynamic Defined Block lapse or become paid up or affect the investment performance or other business factors relevant in determining the amount of surplus arising on the Dynamic Defined Block. For instance, BoI Life may enter into contracts of reinsurance that could have the effect of suppressing or delaying the emergence of surplus on the Dynamic Defined Block (although an adjustment may be made to Annual Recourse Cashflow Amount and Projected VIF if BoI Life does so with the principal purpose of having such an effect); or BoI Life may amend or waive the terms of policies which may result in surplus on such policies being lower than would otherwise have been the case. Furthermore, policies that make up the Dynamic Defined Block may allow BoI Life to waive rights or payments due under these policies, which waiver could have an adverse effect on the emergence of surplus on the Dynamic Defined Block.

There are no provisions in the Transaction Documents requiring BoI Life to carry on its business in any particular way and it is not required to take account of any of the interests of the Noteholders, Ambac, the Security Trustee or the Note Trustee in determining how to run its business. None of the Noteholders, Ambac, the Security Trustee or the Note Trustee has any rights with respect to BoI Life’s business. To the extent BoI Life acts in a way which reduces or delays the emergence of surplus, Noteholders will have no claim against BoI Life.

If any action or omission of BoI Life results in an Invalidity of any of the Business Assumptions, the amount of surplus and/or VIF may be recalculated taking account of such Invalidity (see “*Description of the Dynamic Defined Block – Certain business assumptions made in connection with the transaction and the adjustments to the Annual Recourse Cashflow Amounts and Projected VIF required if such assumptions prove to be incorrect*”). To the extent any action does not result in an Invalidity of a Business Assumption but adversely affects the emergence of surplus as determined for the purposes of the transactions, Noteholders are at risk of actions of BoI Life with respect to its business and the Dynamic Defined Block.

Certain actions of BoI Life may also result:

- (a) in Bank of Ireland being required not to pay dividends on its ordinary stock (see “*Description of the Support Agreement*” below);

- (b) in the Pre-Amortisation Period ending (this may or may not be more beneficial to Noteholders than if the Pre-Amortisation Period had continued and Additional Policies had continued to be added to the Dynamic Defined Block); and/or
- (c) in the IL Loan being required to be repaid early at the Liquidation Repayment and, if a Savings Surplus Election is made, on a Liquidation Distribution being paid with respect to the SLLPI.

See “*Summary of the Transaction – Acceleration of IL Loan and Distributions under the SLLPP*” and the definition of “Amortisation Event” below for certain aspects of this.

BoI Life is the VIF Calculation Agent under the Calculation Agreement pursuant to which it agrees to make calculations of, *inter alia*, the Annual Recourse Cashflow Amount and Projected VIF as well as the calculations necessary to make such calculations and a wide variety of determinations required to enable amounts payable in respect of the IL Loan and SLLPI to be ascertained. No recourse may be had against BoI Life for damages or otherwise (other than injunctive relief, which is discretionary) for failure to perform its obligations under the Calculation Agreement. The Relevant Person will review such calculations annually. The Relevant Person is dependent on BoI Life complying with, *inter alia*, its obligations in respect of IT systems under the Calculation Agreement. On BoI Life becoming subject to insolvency proceedings, an insolvency official of BoI Life may be able to disclaim BoI Life’s obligations under the Calculation Agreement. Bank of Ireland has agreed, however, to procure that BoI Life performs its obligations under the Calculation Agreement and accordingly be liable to the extent BoI Life does not perform. In addition, under the Support Agreement, Bank of Ireland undertakes, *inter alia*, not to pay a dividend on its ordinary stock for so long as, among other things, provided that no Force Majeure Event has occurred and is continuing and no BoI Life Disposal Event has occurred, BoI Life either (i) wilfully refuses to calculate the Annual Recourse Insurance Cashflow Amounts, the Annual Recourse Savings Cashflow Amount, the Projected VIF, the Projected Insurance VIF, the Projected Savings VIF, the Projected Balance Sheet Insurance VIF or the Projected Surplus under the Calculation Agreement (for the avoidance of doubt, inaccurate calculations shall not constitute wilful refusal unless deliberately inaccurate) or (ii) unreasonably and in bad faith prevents the Relevant Person or an Independent Actuary from accessing the information necessary for it to make such calculations for a period of at least five Business Days (provided that the Divided Stopper will not apply to the extent that, following a BoI Life Asset Disposal Event, BoI Life’s failure is attributable only to the performance or failure to perform of the purchaser).

In the event that the calculations necessary for the calculation of the Annual Recourse Cashflow Amount, Projected VIF and other relevant amounts are not made following a BoI Life Disposal Event or a BoI Life Asset Disposal Event, the premium payable to Ambac in respect of the Ambac Financial Guarantee will be increased. The increase will apply whether the failure to make the calculations is the responsibility of BoI Life or a purchaser or otherwise.

The Issuer is reliant on BoI Life to calculate the amounts required to determine what is payable in respect of the IL Loan and SLLPI. While Watson Wyatt is the Relevant Person, the Relevant Person’s fees are capped annually at €20,000 (exclusive of VAT) (increased each year from the Closing Date in line with the UK retail prices index) unless a Benchmark Event occurs, when the cap increases to €100,000 (exclusive of VAT) (increased each year from the Closing Date in line with the UK retail prices index), provided that if Watson Wyatt is no longer the Relevant Person the fees and expenses of the Relevant Person will no longer be subject to a cap (unless otherwise agreed with the successor Relevant Person). Ambac may, at its own cost, request the Relevant Person to undertake additional work (for additional fees); if Ambac ceases to be the Controlling Creditor it is unlikely that the Security Trustee will be in a position to judge whether additional work needs to be performed and will not, unless indemnified and/or secured to its satisfaction by the outstanding Noteholders, have funds to pay for such additional work.

Bank of Ireland will covenant in the Support Agreement that if a BoI Life Disposal Event or a BoI Life Asset Disposal Event occurs and a balance remains on any of the IL Loan Account, the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid), it will procure that:

- (a) in the case of a BoI Life Disposal Event, the person who provides covenants to Bank of Ireland in respect of the sale covenants with the relevant Bank of Ireland Group member to procure that BoI Life continue to make the calculations and perform all its obligations under the Calculation Agreement as if such BoI Life Disposal Event had not occurred; or
- (b) in the case of a BoI Life Asset Disposal Event, the person who provides covenants to BoI Life in respect of the sale covenants with the relevant Bank of Ireland Group member, in the case of a sale of the entire Dynamic Defined Block, to continue, or to procure that the purchaser of the policies continues, to make the calculations and perform all its obligations under the Calculation Agreement as if it were a party thereto or, in the case of sale of part only, to provide, or to procure that the purchaser of the policies provides, BoI Life (or other competent entity within the Bank of Ireland Group) with the information necessary to enable BoI Life (or other competent entity within the Bank of Ireland Group) to continue to make the calculations required and that BoI Life (or other competent entity within the Bank of Ireland Group) will continue to make the calculations (having obtained all the relevant data) as if such BoI Life Asset Disposal Event had not occurred.

Bank of Ireland will undertake in the General Partner Keepwell Agreement that it will make all commercially reasonable efforts to obtain specific performance against the purchaser or other covenanting party in the event of non-compliance with its covenant.

If a BoI Life Asset Disposal Event were to occur and a balance were to remain on any of the IL Loan Account, the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account, and BoI Life unreasonably and in bad faith prevents the Relevant Person or an Independent Actuary from accessing the information necessary for it to make such calculations for a period of at least five Business Days where BoI Life's failure is attributable only to the performance or failure to perform of the relevant purchaser, no Dividend Stopper Event would occur (whereas if a BoI Life Asset Disposal Event had not occurred and subject to certain other conditions, a Dividend Stopper Event would occur in such circumstances).

In addition, if a BoI Life Disposal Event were to occur and be continuing and a balance were to remain on any of the IL Loan Account, the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account, and BoI Life either (i) wilfully refuses to calculate the Annual Recourse Insurance Cashflow Amounts, the Annual Recourse Savings Cashflow Amount, the Projected VIF, the Projected Insurance VIF, the Projected Savings VIF, the Projected Balance Sheet Insurance VIF or the Projected Surplus under the Calculation Agreement or (ii) unreasonably and in bad faith prevents the Relevant Person or an Independent Actuary from accessing the information necessary for it to make such calculations for a period of at least five Business Days, no Dividend Stopper Event would occur (whereas if a BoI Life Disposal Event had not occurred and subject to certain other conditions, a Dividend Stopper Event would occur in such circumstances).

#### **Reliance on the Relevant Person and Independent Actuary**

BoI Life calculates the amounts which form the basis for allocation through the Partnership Accounts, including of Annual Recourse Insurance Cashflow Amount, Annual Recourse Savings Cashflow Amount, Projected Insurance VIF and Projected Savings VIF as well as the effect on such amounts of any Invalidity of a Business Assumption. Such calculations will be the subject of review by the Relevant Person but only if a Benchmark Event has occurred. Ambac, separately, has the right to appoint an independent actuary to review the calculation.

The initial Relevant Person is expected to be Watson Wyatt. BoI Life is a client of Watson Wyatt and Watson Wyatt may accordingly be perceived to be subject to a conflict of interest in performing the role of Relevant Person. However, Watson Wyatt have agreed to take into account, on a non-exhaustive basis, the interests of Noteholders as a group in performing the role of Relevant Person.

Ambac (for so long as it is the Controlling Creditor) may, subject to certain conditions, require that Watson Wyatt be replaced as Relevant Person. This ability will not be available when Ambac is no longer the Controlling Creditor (accordingly, no-one (including the Class A-2 Noteholders or a person acting on their behalf) will be entitled to terminate the appointment of the Relevant Person or otherwise benefit from the rights attaching to Ambac (for so long as it is the Controlling Creditor) under the Calculation Agreement once Ambac is no longer the Controlling Creditor). The number of organisations with the actuarial expertise to perform the role of Relevant Person is limited. There can be no assurance that any other person would be prepared to enter into the Calculation Agreement or agree to do so for the fees which will be payable to the Relevant Person. In such a case there will be no independent monitor of the calculations performed by BoI Life.

In certain circumstances where there is a dispute between BoI Life and the Relevant Person, such dispute may be referred to an Independent Actuary to determine the outcome in accordance with the Limited Partnership Agreement provisions. There can be no assurance that any person will agree to act as Independent Actuary or that an Independent Actuary will be able to make its determination within the time frame required under the Limited Partnership Agreement, in which case the determination of BoI Life will prevail until such time as an Independent Actuary has resolved the matter and adjustments will be made on the next Annual Determination Date to reflect the outcome.

The fees payable to the Relevant Person may be capped in each year and this cap will most likely have the effect of limiting the extent of the review by the Relevant Person. The maximum fees per annum payable by the Limited Partnership to the Relevant Person (while Watson Wyatt is the Relevant Person) will be €20,000 (exclusive of VAT) (increased each year from the Closing Date in line with the UK retail prices index), unless a Benchmark Event has occurred in which case the maximum fees will be €100,000 (exclusive of VAT) (increased each year from the Closing Date in line with the UK retail prices index), provided that if Watson Wyatt is no longer the Relevant Person the fees and expenses of the Relevant Person will no longer be subject to a cap (unless otherwise agreed with the successor Relevant Person). If the Relevant Person has stopped any current investigation because its fees have reached the above-described cap and Ambac has reasonable commercial grounds for desiring that investigation to continue, Ambac, as long as it is the Controlling Creditor, will be entitled, at its expense, to require the Relevant Person to continue with that investigation. Any costs arising from the continuance of the investigation will be for Ambac's account unless one or more Invalidities are discovered as a result of the continuation of the investigation, whose effect is or has been a reduction in the Projected VIF in an amount equal to or greater than five per cent. or whose effect was a reduction in the Annual Recourse Cashflow Amount in an amount equal to or greater than five per cent. of the Projected Surplus for relevant Accounting Period, in which case Ambac will be reimbursed for such costs by the Limited Partnership. Similar rights are not extended to the Security Trustee or the Note Trustee if Ambac is not the Controlling Creditor, as neither the Security Trustee nor the Note Trustee will be in a position to fund any extra investigation or to judge whether any extra investigation may be necessary.

In addition to the foregoing, the terms of engagement of Watson Wyatt as the Relevant Person cap its liability under the transaction. As a result, the amount that can be recovered from Watson Wyatt in the event of a loss to Noteholders attributable to Watson Wyatt may be substantially less than the possible quantum of damages that may arise as a result of their negligence.

#### **The Issuer has no ownership of BoI Life or the Dynamic Defined Block**

Neither the Issuer nor the Limited Partnership has or will have any interest in or ownership of BoI Life or the Dynamic Defined Block. The Dynamic Defined Block is not an asset of the Limited



Partnership and the revenues from it are not payable to the Limited Partnership; rather, the sole purpose of the Dynamic Defined Block is to enable certain calculations to be made (as described in "*Description of the Dynamic Defined Block*") by reference to which the obligation of the Limited Partnership to pay interest and principal on the IL Loan and distributions on the SLLPI is ascertained and may be limited.

BoI Life will not undertake to act in any way in connection with its business or the Dynamic Defined Block. However, if certain Business Assumptions are or become invalid, adjustments may be required in making the calculations to take account of such Invalidity (see "*Description of the Dynamic Defined Block*" below).

BoI Life may dispose of all or some only of the Dynamic Defined Block and Bank of Ireland may dispose of BoI Life. In such circumstances the following will occur.

In this section the following definitions will apply:

A "**BoI Life Disposal Event**" means (a) a sale by Bank of Ireland or another member of the Group of the controlling interest in BoI Life in one sale or a series of sales other than to a member of the Group or (b) a disposal by Bank of Ireland or another member of the Group in one transaction or a series of transactions other than with a member of the Group of the majority of the economic interest in the shares in BoI Life.

A "**BoI Life Asset Disposal Event**" will occur if either of the two following tests are met:

- (a) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the commencement of the Amortisation Period is equal to or greater than 50 per cent. of the Projected VIF at the commencement of the Amortisation Period; or
- (b) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the prior Annual Determination Date is equal to or greater than 50 per cent. of the Projected VIF as at such Annual Determination Date.

If a BoI Life Disposal Event or a BoI Life Asset Disposal Event occurs, the VIF Calculation Agent will on the Distribution Determination Date immediately following the occurrence of such event determine an amount equal to:

- (x) the insurance value-in-force component of the gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer ("**Insurance VIF Sale Proceeds**") and
- (y) the savings value-in-force component of the gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer ("**Savings VIF Sale Proceeds**").

The Insurance VIF Sale Proceeds and the Savings VIF Proceeds are determined in accordance with the Limited Partnership Agreement (see "*Terms and Conditions of the Insurance-linked Loan and the Savings-linked Limited Partnership Interest – Operation of the Capital Accounts, Distributions of Profit and Payments in respect of the IL Loan*" below). The gross sale proceeds (before transaction expenses and any Economic Equivalent of Sale Proceeds realised from the transfer) shall be such actual amounts, if such sale was on arm's length terms between unconnected parties. Bank of Ireland shall procure that a report (a "**Fair Value Report**") is obtained from an investment bank acceptable to Ambac (Ambac's acceptance not to be unreasonably withheld or delayed) confirming that the sale was on arm's length terms and expressing an opinion on the fairness of the terms of the sale. If any part of

such amounts is other than in cash, the VIF Calculation Agent shall determine what the value of the non-cash amounts is in accordance with the Procedures. If the Fair Value Report states that the sale was other than between unconnected parties and on arm's length terms the VIF Calculation Agent shall notify the Relevant Person and shall, in accordance with the Procedures, agree what the amounts would have been had they been on arm's length terms between unconnected parties, failing which any dispute may be referred to the Independent Actuary in accordance with the Procedures.

The Insurance VIF Sale Proceeds will be treated as an Annual Recourse Insurance Cashflow Amount and the Savings VIF Sale Proceeds will be treated as an Annual Recourse Savings Cashflow Amount. If the treatment of these amounts as an Annual Recourse Insurance Cashflow Amount and as an Annual Recourse Savings Cashflow Amount results in the IL Loan principal balance being repaid and the balance of the Deficit Account, the Missed Spread Account and the Missed SLLPI EURIBOR Account being reduced to zero, payments will be made accordingly and the transaction will terminate. If not, payments will be made accordingly and the transaction will continue (as described below) and Bank of Ireland will, pursuant to an undertaking in the Support Agreement, procure that:

- (a) in the case of a BoI Life Disposal Event, the person who provides covenants to Bank of Ireland in respect of the sale covenants with the relevant Bank of Ireland Group member to procure that BoI Life continue to make the calculations and perform all its obligations under the Calculation Agreement as if such BoI Life Disposal Event had not occurred; or
- (b) in the case of a BoI Life Asset Disposal Event, the person who provides covenants to BoI Life in respect of the sale covenants with the relevant Bank of Ireland Group member, in the case of a sale of the entire Dynamic Defined Block, to continue, or to procure that the purchaser of the policies continues, to make the calculations and perform all its obligations under the Calculation Agreement as if it were a party thereto or, in the case of sale of part only, to provide or to procure that the purchaser of the policies provides, BoI Life (or other competent entity within the Group) with the information necessary to enable BoI Life (or other competent entity within the Group) to continue to make the calculations required and that BoI Life (or other competent entity within the Group) will continue to make the calculations (having obtained all the relevant data) as if such BoI Life Asset Disposal Event had not occurred.

Despite these covenants, it is not certain that such person would have the ability to make the calculations and perform all its obligations under the Calculation Agreement in the same manner as BoI Life or that such person's calculations would be as reliable as BoI Life's calculations.

To the extent that any balance remains on the IL Loan Account, the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account after giving effect to the above, the calculations required to be made for the purposes of the transaction will continue to be made with respect to the policies comprised in the Dynamic Defined Block at the time of the sale. The Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount will be determined on each subsequent Annual Determination Date as if the BoI Life Disposal Event or BoI Life Asset Disposal Event had not occurred. In addition the amount of Spread which is required to be paid will be determined (and whether the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount determined on Annual Determination Dates following the Acceleration Date are sufficient to cover such Spread) and, assuming sufficient Annual Recourse Insurance Cashflow Amounts and/or Annual Recourse Savings Cashflow Amounts and that a Savings Surplus Election is made, such Spread will be paid by the Limited Partnership (subject to reduction for, *inter alia*, any Replacement Deposit Bank Deficiency). If, prior to the Maturity Date, (i) the aggregate of the Annual Recourse Insurance Cashflow Amounts and Annual Recourse Savings Cashflow Amounts determined after the sale less the amounts of Spread paid after the sale exceed (ii) the aggregate of the Insurance VIF Sale Proceeds and the Savings VIF Sale Proceeds determined in respect of the sale, the excess will be regarded as Annual Recourse Insurance Cashflow Amount or Annual Recourse Savings Cashflow Amount and any balance on the IL Loan Account, Deficit

Account or Missed Spread Account will be reduced accordingly (with corresponding payments being made on the IL Loan or SLLPI, as applicable).

In addition, BoI Life may sell policies which do not result in a BoI Life Asset Disposal Event; such sales are likely to result in a Partial Sale Event. A "Partial Sale Event" will occur if either of the two following tests are met:

- (a) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the commencement of the Amortisation Period is less than 50 per cent. of the Projected VIF at the commencement of the Amortisation Period (and greater than zero); or
- (b) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the prior Annual Determination Date is less than 50 per cent. of the Projected VIF as at such Annual Determination Date (and greater than zero).

In such a case:

- (a) in the Pre-Amortisation Period, on the Annual Determination Date immediately following such transfer the procedure for adding Additional Policies would be applied. If the result is that an Amortisation Event would occur, (c) below will apply;
- (b) in the Pre-Amortisation Period, if, following such transfer, the procedure for adding Additional Policies has been followed and an Amortisation Event does not occur, Additional Policies will be added in accordance with the description in "*Description of Dynamic Defined Block – Inclusion of Additional Policies in the Dynamic Defined Block*";
- (c) in the Amortisation Period:
  - (i) an amount equal to the Insurance VIF Sale Proceeds will be determined and added to the Annual Recourse Insurance Cashflow Amount; and
  - (ii) an amount equal to the Savings VIF Sale Proceeds will be determined and added to the Annual Recourse Savings Cashflow Amount (and accordingly shall be added to the Savings Cashflow Tracking Account).

The inclusion of the Insurance VIF Sale Proceeds and the Savings VIF Sale Proceeds may result in a dilution of the ratio of the amount of the Notes to what would have been the Projected VIF had the sale or transfer not occurred if the Projected VIF was higher than the Insurance VIF Sale Proceeds and Savings VIF Sale Proceeds. However, if the Partial Sale Event occurs in the Amortisation Period (or causes the Amortisation Period to occur) and if the sum of the Insurance VIF Sale Proceeds and the Savings VIF Sale Proceeds is less than the sum, as at the immediately preceding Annual Determination Date, of the Insurance VIF and Savings VIF in respect of the Policies which have been transferred since such immediately preceding Annual Determination Date, Additional Policies (if any are available) will be included (to the extent that they have not previously been included) in the Dynamic Defined Block on the Annual Determination Date first following the transfer having a projected value-in-force at least equal to the deficit. In the event that there are no or insufficient Additional Policies at such time, Additional Policies will be added to the Dynamic Defined Block to the extent available (whether at such time or subsequently), but there will be no further compensating arrangement for any remaining deficit.

For this purpose, Bank of Ireland will undertake an obligation to act in good faith to make Additional Policies available for the purposes of making additions to the Dynamic Defined Block. In those circumstances where BoI Life sells, reinsures, securitises or otherwise disposes of the control or

economic interests in any of its policies, Bank of Ireland will covenant to ensure that BoI Life continues to calculate the Annual Recourse Cashflow Amount, Projected VIF and other relevant calculations, through either retaining the data required to calculate them or requiring a counterparty to provide such data (and such policies are serviced as if they had not been so sold, reinsured, securitised or otherwise disposed of as described above), to the extent that such policies are required, in addition to other potentially available Additional Policies, to maintain the ratio of Projected VIF to the outstanding principal balance of the Notes of at a level no lower than the ratio immediately prior to the relevant disposal.

#### **The Issuer has no security over the Deposits or other assets of the Limited Partnership**

The Deposits, the Deposit Agreements, the replacement Permitted Investments and the Support Agreement are assets of the Limited Partnership. The Issuer will have no right to, and no security over, the Deposits, the Deposit Agreements, the Support Agreement or any other assets of the Limited Partnership. If Bank of Ireland becomes insolvent, the Limited Partnership will be an unsecured creditor of Bank of Ireland with respect to the obligations owed by Bank of Ireland (which, if Bank of Ireland has not been replaced as obligor under the Deposit Agreements, will include the Deposit Agreements) and will rank *pari passu* with depositors of Bank of Ireland who are unsecured creditors.

The General Partner Keepwell Agreement is not an asset of the Limited Partnership and the Issuer has no right to, or security over, it.

If the General Partner fails to perform its obligations under the Limited Partnership Agreement (including under the IL Loan), including failing to pay amounts otherwise due, the Issuer, Ambac and the Security Trustee will have no ability to direct performance under the Deposit Agreements and will be limited to enforcing their rights under the Limited Partnership Agreement. Ambac (for so long as it is the Controlling Creditor) or the Security Trustee (if Ambac is no longer the Controlling Creditor) will, as parties to the Support Agreement, be entitled to enforce Bank of Ireland's obligations under the Support Agreement, but payment will be made only to the Limited Partnership. The General Partner (on its own behalf and on behalf of the Limited Partnership) will also each give to each of Ambac and the Security Trustee an Investment Power of Attorney empowering each to realise the assets of the Limited Partnership and reinvest the proceeds thereof in replacement Permitted Investments in the name of the Limited Partnership if necessary to cause compliance with the direction to move the Deposits (or realise other assets of the Limited Partnership and move the proceeds thereof). (See further "*Description of the Support Agreement*" below).

#### **Limited Recourse Obligations of the Issuer**

The Notes are limited recourse obligations of the Issuer; the Issuer will not have any assets or funds other than those described in this Prospectus and, accordingly, in practice the Notes are funded solely from, and holders of the Notes must rely solely on, amounts received by the Issuer in respect of the IL Loan and the SLLPI and the amount available under the Liquidity Facility Agreement and, in respect of expenses, the amount available in the Issuer Expenses Reserve Account (except that the Class A-1 Noteholders will also be entitled to the benefit of the Ambac Financial Guarantee with respect to Scheduled Interest and Ultimate Principal thereon in accordance with the terms and conditions of the Ambac Financial Guarantee - see "*Form of Ambac Financial Guarantee*" below). The Notes will not be obligations of or responsibilities of, or guaranteed by, any other person (other than Ambac in relation to Scheduled Interest and Ultimate Principal on the Class A-1 Notes in accordance with the terms and conditions of the Ambac Financial Guarantee). In particular, none of the Note Trustee, the Security Trustee, the Principal Paying Agent, the Agent Bank, the Issuer Cash Manager, the Account Bank, the Issuer Corporate Services Provider, the Lead Managers, Ambac (save in relation to the payment of Scheduled Interest and Ultimate Principal in respect of the Class A-1 Notes in accordance with the terms and conditions of the Ambac Financial Guarantee), the Liquidity Facility Provider, the Calculation Agent, the Limited Partnership, Bank of Ireland, BoI Life or any of their affiliates or any other company in the same group of companies as, or affiliated to, the Issuer, or any of the officers,

directors or incorporators of any of the aforementioned parties, including of the Issuer, will be obliged to make payments on the 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 in respect of the IL Loan and the SLLPI are insufficient to make payments on the Notes in accordance with the relevant Priority of Payments, the Issuer is not expected to have any other assets available for payment of the shortfall other than the amount available to be drawn under the Liquidity Facility Agreement and, in respect of expenses, the amount available in the Issuer Expenses Reserve Account (which may be drawn only in very limited circumstances) (except that the holders of the Class A-1 Notes are also entitled to the benefit of the Ambac Financial Guarantee with respect to Scheduled Interest and Ultimate Principal in accordance with the terms and conditions of the Ambac Financial Guarantee - see "*Form of Ambac Financial Guarantee*" below).

#### **Enforcement and Limited Acceleration of Notes**

Except on the Maturity Date, a failure by the Issuer to pay in full any amount due and payable by it on account of insufficient Available Funds for such amount under the relevant Priority of Payments will not constitute an Issuer Enforcement Event. In such situation, no action may be taken on behalf of Noteholders to enforce the Issuer Security.

The Conditions provide for the acceleration of the Notes (as opposed to an enforcement of the Issuer Security) when an Acceleration Event under the IL Loan has occurred (and not been waived or cured in accordance with the terms of the Limited Partnership Agreement) and an Insolvency Event in respect of the Issuer has occurred and is ongoing. Even where these provisions apply, the Issuer's obligation to make payment will still be limited to the Available Funds and by the applicable Priority of Payments. The Conditions contain no provision allowing for acceleration upon the occurrence of any other event involving a breach by the Issuer. Even if the Conditions contained a more expansive acceleration provision, the Issuer's expected lack of assets beyond the IL Loan, the SLLPI and the amount eligible to be drawn under the Liquidity Facility Agreement and, in respect of expenses, the amount available in the Issuer Expenses Reserve Account would provide little benefit in acceleration except as a trigger for an enforcement of the Issuer Security by the Security Trustee. Because the IL Loan and the SLLPI may only be transferred with the consent of the General Partner (except to a Receiver appointed by the Security Trustee upon enforcement of the Issuer Security), it is unlikely that upon an enforcement of the Issuer Security the Receiver or the Security Trustee would be able to raise funds to pay any outstanding interest on or repay principal of the Notes by selling the IL Loan or the SLLPI. It should be noted that the Security Trustee will not accept that the SLLPI be registered in its name in light of the risks to a person holding an interest in a limited partnership becoming liable for debts of the limited partnership if it takes part in management of the Limited Partnership.

In addition, none of the Noteholders or any other Secured Creditor may proceed directly against the Issuer in respect of the Notes or any other Transaction Document, except that Ambac (or, if Ambac is not the Controlling Creditor, the Note Trustee) may so proceed directly if the Security Trustee, having become bound so to proceed, fails to do so within a reasonable period of time and such failure is continuing. While Ambac is the Controlling Creditor, only Ambac will, and the Noteholders, the Note Trustee (unless directed by Ambac) and the other Secured Creditors will not have any right to direct the Security Trustee to proceed against the Issuer to enforce the provisions of the Issuer Deed of Charge or the Notes (including, commencing or taking any insolvency proceedings or taking any other steps against the Issuer for the purpose of obtaining payment of any amount due or owing to it by the Issuer) or to direct the Note Trustee to direct the Security Trustee to enforce the Issuer Security or to direct the Security Trustee to enforce the Issuer Security.

For the avoidance of doubt, the provision summarised above does not prevent Ambac (for so long as Ambac is the Controlling Creditor) or (thereafter) the Noteholders from directing the Note Trustee to direct the 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 as described in the foregoing and any interest received on the Issuer Accounts, 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.

#### **Restriction on amounts payable under the IL Loan and the SLLPI**

The Limited Partnership's obligation to pay interest exceeding EURIBOR and principal on the IL Loan and to pay distributions on the SLLPI will be limited by the Annual Recourse Insurance Cashflow Amount and/or the Annual Recourse Savings Cashflow Amount and/or balance on the Savings Cashflow Tracking Account and/or the General Partner not making the Savings Surplus Election.

The ability of the Issuer to pay interest and principal on the Notes will depend primarily on the receipt by the Issuer of interest and principal on the IL Loan and Distribution Amounts on the SLLPI from the Limited Partnership and whether such amounts are sufficient taking into account the other obligations of the Issuer (which may include unforeseen expenses and liabilities). The ability of the Limited Partnership to pay interest and principal on the IL Loan and Distribution Amounts on the SLLPI will depend primarily upon the amounts received in respect of the Limited Partnership's assets (including under the Deposit Agreements (or and any replacement for them) and the Support Agreement).

The amount of the obligation of the Limited Partnership on a Distribution Payment Date to pay interest and principal on the IL Loan and distributions on the SLLPI will depend on a variety of factors arising from, *inter alia*, (i) the determination of the amounts of the Annual Recourse Insurance Cashflow Amount, the Annual Recourse Savings Cashflow Amounts, the Projected Insurance VIF and the Projected Savings VIF (as to which, see "*Description of the Dynamic Defined Block*" below) (ii) the operation of the Partnership Accounts (see Part C of "*Terms and Conditions of the Insurance-linked Loan and Savings-linked Limited Partnership Interest*" below) and (iii) whether the Savings Surplus Election is made. The calculations by reference to which the obligations on the IL Loan and SLLPI are complex and need to be understood in their entirety in order to understand the risks with respect to the transaction. The following is an overview and summary of the structure of the calculations and certain risks arising from them.

**Surplus and VIF Calculations:** For the Accounting Period before each Annual Determination Date the VIF Calculation Agent will calculate, as described in "*Description of the Dynamic Defined Block*", *inter alia*, the following principal amounts:

- (a) the Annual Recourse Insurance Cashflow Amount (broadly representing the surplus, calculated using the Model, arising on the Insurance Contracts in the Dynamic Defined Block);
- (b) the Annual Recourse Savings Cashflow Amount (broadly representing the surplus, calculated using the Model, arising on the Savings Contracts in the Dynamic Defined Block); and
- (c) the Projected VIF (comprising the Projected Insurance VIF and the Projected Savings VIF) (broadly representing the projected value-in-force, calculated using the Model, of the Insurance Contracts and Savings Contracts, respectively, projected to arise in Accounting Periods ending prior to the Annual Determination Date in 2032).

The following is a high-level summary of certain features of the operation of the Partnership Accounts and is qualified in its entirety by the actual operational provisions.

**Interest and principal repayments on the IL Loan and SLLPI Profit Distribution Amounts and SLLPI Loan Reduction Profit Amounts on the SLLPI:** The amount of interest and principal on the IL Loan and the distributions payable on the SLLPI are determined in accordance with the calculations set out in Part C of the “*Terms and Conditions of the Insurance-linked Loan and the Savings-linked Limited Partnership Interest*” below. In very broad terms (and assuming the Pre-Enforcement Priority of Payments is applicable):

- (a) *IL Loan Account Balance:* The interest accruing on the IL Loan accrues on the IL Loan Account Balance at the beginning of the relevant Distribution Period. The IL Loan Account Balance is initially the amount advanced on the IL Loan (being €400 million). If there is an IL Impairment, the IL Loan Account Balance will be reduced (and the Deficit Account increased). Broadly, an IL Impairment arises where the sum of the Projected Balance Sheet Insurance VIF and the Annual Recourse Insurance Cashflow Amount is less than the sum of the IL Loan Account Opening Balance and the Insurance Spread for the four Distribution Payment Dates to and including the Distribution Payment Date falling immediately after the Annual Determination Date at which such calculations are being made, as calculated in accordance with the operation of the Partnership Accounts. An IL Impairment may be reversed – in whole or part – if on a subsequent Annual Determination Date the sum of the Projected Balance Sheet Insurance VIF and the Annual Recourse Insurance Cashflow Amount rises above the IL Loan Account Opening Balance and the Insurance Overpaid Spread Account Balance (but not to the extent that an SLLPI Loan Reduction Profit Amount has been paid).

The Projected Balance Sheet Insurance VIF will be different from and generally lower than the Projected Insurance VIF as the discount rate applied to the projected future surplus is the rate of interest used by Bank of Ireland in its most recent annual accounts for determining value-in-force of insurance contracts on its balance sheet and not the Projected Spread Rate.

- (b) *Interest on the IL Loan Account Balance:* The interest accruing on the IL Loan Account Balance will consist of two components – that accruing at the EURIBOR rate and that consisting of the Insurance Spread (calculated, broadly, to reflect the Margin on the Notes and certain expenses of the Issuer less its income on the Issuer Liquidity Reserve Account and the Issuer Expenses Reserve Account allocated to the Insurance Spread *pro rata* to the IL Loan Account Balance and the Deficit Account Balance). Subject to the reduction mentioned below:

- (i) the EURIBOR component will be payable on each Distribution Payment Date (each of which will also be an Interest Payment Date); and
- (ii) the Insurance Spread component will be payable on each Distribution Payment Date.

On each Annual Determination Date the General Partner will determine whether the Annual Recourse Insurance Cashflow Amount exceeds the Insurance Spread component in the Spread Calculation Period ending on the next Distribution Payment Date. If it does, there will be no reduction of the Insurance Spread component accruing on the IL Loan Account Balance for the next year. If, however, the Insurance Spread component in the relevant Spread Calculation Period exceeds the Annual Recourse Insurance Cashflow Amount, the excess will be recovered by reducing the Insurance Spread component of the interest payable on the IL Loan Account on the next Distribution Payment Dates until it has been fully recovered.

To the extent of any balance on the Savings Cashflow Tracking Account and if the General Partner makes a Savings Surplus Election, corresponding distributions will be payable on the SLLPI. To the extent that there is insufficient balance on the Savings Cashflow Tracking Account or the General Partner does not make a Savings Surplus Election, the Liquidity Facility may be drawn to cover the deficit in payment of interest that would otherwise occur in

respect of the Class A-1 Notes; if having drawn the Liquidity Facility there remains an insufficiency of Available Funds, any unpaid Scheduled Interest on the Class A-1 Notes will be paid under the Ambac Financial Guarantee. The Liquidity Facility will not be available to cover interest on the Class A-2 Notes and accordingly an insufficiency of Available Funds to cover interest and payments ranking senior in the Priority of Payments will result in non-payment of interest on the Class A-2 Notes.

- (c) *Deficit Account Balance:* If the IL Loan Account is less than the amount initially credited to it (other than because it has been repaid in whole or part), this will be because there has been an IL Impairment (or because there is a Replacement Deposit Bank Deficiency, as to which see “*Nature of the Support Agreement*” above). An IL Impairment will result in the IL Loan Account Balance being written down, which reduces the liability of the Limited Partnership to repay the initial IL Loan and accordingly represents a profit to the Limited Partnership. Where an IL Impairment results in the IL Loan Account Balance being written down, the Deficit Account will be written up.
- (d) *SLLPI Profit Distribution Amounts:* The Deficit Account Balance accrues an amount consisting of two components – that accruing at EURIBOR and that consisting of the Savings Spread (calculated, broadly, to reflect the Margin on the Notes and certain expenses of the Issuer less its income on the Issuer Liquidity Reserve Account and the Issuer Expenses Reserve Account and allocated *pro rata* to the IL Loan Account Balance and the Deficit Account Balance). Subject to the reduction mentioned below:
- (i) the EURIBOR component will be payable on each Distribution Payment Date;
  - (ii) the Savings Spread component will be payable on each Distribution Payment Date; and
  - (iii) the Insurance Spread component which exceeds the Annual Recourse Insurance Cashflow Amount in that or prior years which has not previously been covered from the Savings Cashflow Tracking Account or out of the Annual Recourse Insurance Cashflow Amounts and any Savings Spread component not covered from the Savings Cashflow Tracking Account in previous years (which is recorded on the Missed Spread Account) will be payable on each Distribution Payment Date,

in each case provided the General Partner has made the Savings Surplus Election in respect of the Annual Determination Date immediately preceding such Distribution Payment Date.

On each Annual Determination Date the General Partner will determine whether to make the Savings Surplus Election in respect of the Distribution Payment Dates occurring prior to the next Annual Determination Date. If the Savings Surplus Election is made, the General Partner will determine whether the balance on the Savings Cashflow Tracking Account exceeds the Savings Spread component in the relevant Spread Calculation Period and the balance on the Missed Spread Account. If it does there will be no reduction of the Savings Spread component accruing on the Deficit Account Balance for the next year. If, however, the Savings Spread component in the relevant Spread Calculation Period and the balance on the Missed Spread Account exceeds the balance on the Savings Cashflow Tracking Account, the excess of the current Savings Spread (and any balance on the Missed Spread Account not already so recovered) will be recovered by reducing the amount of the distribution of the Savings Spread component which would otherwise have been payable on the SLLPI on the next Distribution Payment Date.

To the extent that any amounts of Savings Spread remain unpaid as a distribution, they are recorded on the Missed Spread Account and may be paid subsequently if there is sufficient balance on the Savings Cashflow Tracking Account to cover such amounts (after covering the



current Savings Spread). The balance on the Missed Spread Account is increased by EURIBOR plus the Weighted Average Spread Rate on a quarterly compounding basis to reflect actual deferral of payment from the date of first deferral.

If the General Partner does not make the Savings Surplus Election, the Missed SLLPI EURIBOR Account will be increased subsequently to reflect an amount equal to EURIBOR and the Weighted Average Spread Rate accruing on the Deficit Account (on a quarterly compounding basis).

For so long as the General Partner does not make the Savings Surplus Election the amount on the Deficit Account and the accruing distribution at EURIBOR on the Missed SLLPI EURIBOR plus the Savings Spread will not give rise to a distribution on the SLLPI, resulting in a deferral of amortisation of the Notes and non-payment of interest (to the extent not paid in respect of the Class A-1 Notes under the Ambac Financial Guarantee or from drawings under the Liquidity Facility Agreement).

- (e) *Partial amortisation - Repayments of principal on the IL Loan and SLLPI Loan Reduction Profit Amounts in the Pre-Amortisation Period:* With respect to principal repayments of the IL Loan, unless partial amortisation is required in the Pre-Amortisation Period, no principal will be repayable in that period. Similarly, no SLLPI Loan Reduction Profit Amounts will be made on the SLLPI in the Pre-Amortisation Period, unless partial amortisation is required in the Pre-Amortisation Period.

In the Pre-Amortisation Period, as part of the process of determining whether Additional Policies can be added to the Dynamic Defined Block, it is necessary to determine whether a repayment of principal is required on the IL Loan. If a repayment would be required but there is an insufficient Annual Recourse Insurance Cashflow Amount arising in the relevant Accounting Period and either there is an IL Impairment and there is an insufficiency on the Savings Cashflow Tracking Account to cover such IL Impairment or the General Partner does not make the Savings Surplus Election, the Pre-Amortisation Period ends and the Amortisation Period will commence. In the Pre-Amortisation Period, as part of the process of determining whether Additional Policies can be added to the Dynamic Defined Block, it is necessary to determine whether a distribution will be required on the SLLPI. (See “Description of the Dynamic Defined Block – Inclusion of Additional Policies in the Dynamic Defined Block” below.)

- (f) *Repayments of principal on the IL Loan:* To the extent that partial repayment of the IL Loan is required in the Pre-Amortisation Period, such amount will be payable only to the extent that there is sufficient Annual Recourse Insurance Cashflow Amount arising in the Accounting Period ending immediately prior to the relevant Annual Determination Date and such calculation shall be made after deducting the amount used to cover Insurance Spread in that period or any prior period to the extent not paid out under the SLLPI.

In the Amortisation Period, the amount repayable on the IL Loan will be the balance of the Annual Recourse Insurance Cashflow Amount arising in the Accounting Period ending immediately prior to the Annual Determination Date and such calculation shall be made after deducting the amount used to cover Insurance Spread in that period or any prior period to the extent not paid out under the SLLPI.

- (g) *SLLPI Loan Reduction Profit Amounts:* If a partial amortisation would be required in the Pre-Amortisation Period and (i) there is insufficient Annual Recourse Insurance Cashflow Amount to cover the partial amortisation amount and (ii) the General Partner makes the Savings Surplus Election and there is sufficient Annual Recourse Savings Cashflow Amount arising in the relevant Accounting Period (after deducting any Missed Spread Account

balance), the balance of the partial amortisation may be paid as an SLLPI Loan Reduction Profit Amount (and the IL Loan Account Balance will be reduced).

In the Amortisation Period the amount payable as an SLLPI Loan Reduction Profit Amount is determined broadly as follows. Generally amounts will arise on the Deficit Account only if there has been an IL Impairment. If the General Partner does not make the Savings Surplus Election in respect of the relevant Annual Determination Date, no SLLPI Loan Reduction Profit Amount will be payable on the immediately succeeding Distribution Payment Date. If the Savings Surplus Election is made, the SLLPI Loan Reduction Profit Amount is, broadly, the lower of (a) the balance on the Savings Cashflow Tracking Account (as reduced by the amount of the Savings Spread and balance on the Missed Spread Account on such Annual Determination Date) and (b) the balance on the Deficit Account. (See "*General Partner's incentive to apply Savings Cashflow Tracking Account balance*" below with respect to incentives on the General Partner to make the Savings Surplus Election.)

- (h) *Repayments of IL Loan and SLLPI Loan Reduction Profit Amounts limited to initial IL Loan advanced:* The aggregate amount repayable on the IL Loan and the aggregate SLLPI Loan Reduction Profit Amounts on the SLLPI (including any Liquidation Repayment and Liquidation Distribution reflecting principal repaid or written off) may not exceed the amount initially advanced on the IL Loan. In addition, the IL Loan repayable at any time may not exceed the IL Loan Account Balance (which may be written down in respect of an IL Impairment Amount and which may subsequently be written up if there is a subsequent increase in, broadly, Projected Balance Sheet Insurance VIF).
- (i) *Reduction of payments on the IL Loan and SLLPI with respect to Replacement Deposit Bank Deficiencies:* Interest and principal payment on the IL Loan and amounts otherwise payable on the SLLPI may be deferred and ultimately written off by any Replacement Deposit Bank Deficiency. See "*Description of the Support Agreement*".

The effect of the calculations required to be made is that the amount which the Issuer receives and the time at which it is received on the IL Loan and/or the SLLPI will depend on, *inter alia*:

- (i) the amount of the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount in each Accounting Period;
- (ii) the extent to which the IL Loan Account is written down in respect of an IL Impairment;
- (iii) the amount of the Savings Cashflow Tracking Account from time to time;
- (iv) whether the General Partner makes a Savings Surplus Election on each Annual Determination Date; and
- (v) the Projected VIF, the Projected Insurance VIF, the Projected Balance Sheet Insurance VIF and the Projected Savings VIF.

The amounts described above may be less than would otherwise be the case if risks in respect of the Dynamic Defined Block were to be realised. The principal risks relating to the Dynamic Defined Block are described in "*Description of the Dynamic Defined Block*" below. The determination of Annual Recourse Insurance Cashflow Amount and Annual Recourse Savings Cashflow Amount and issues relating thereto, including a summary of the principal risks in respect thereof, are described under "*Description of the Dynamic Defined Block*" and Part C of the "*Terms and Conditions of the Insurance-linked Loan and the Savings-linked Limited Partnership Interest*" below.

### **Adjustments for Overpaid Spread**

Insurance Spread and Savings Spread will accrue and (subject to downward adjustments) be paid quarterly during a Spread Calculation Period. However, the Annual Recourse Insurance Cashflow Amount, the Annual Recourse Savings Cashflow Amount and the balance on the Savings Cashflow Tracking Account, by reference to which the amount of Insurance Spread and/or Savings Spread payable is determined, will be calculated on the Annual Determination Date falling in such Spread Calculation Period. Accordingly, it may turn out that the amount of Insurance Spread and Savings Spread paid in a Spread Calculation Period may exceed the Annual Recourse Insurance Cashflow Amount applicable to the related Accounting Period and the balance of the Savings Cashflow Tracking Account on the relevant Annual Determination Date. As a result, interest on the IL Loan and the SLLPI Profit Distribution Amount (other than the accruing EURIBOR component) which would otherwise be paid by the Limited Partnership on a Distribution Payment Date may be adjusted downward to account for any such overpayment (including for overpayments that were not adjusted for on previous Distribution Payment Dates).

### **Savings Surplus Election**

On or before each Annual Determination Date (and in the case of Acceleration Events, certain other days treated as Annual Determination Dates) the General Partner may make the Savings Surplus Election in respect of the relevant Annual Determination Date. Failure to make such an election has two primary consequences:

- (a) the EURIBOR component of any amount accruing on the Deficit Account, Missed Spread Account and Missed SLLPI EURIBOR Account will be deferred until such time as an election is made (with interest compounding quarterly at EURIBOR plus the Weighted Average Spread); and
- (b) no distributions will be made in respect of the SLLPI until a Savings Surplus Election is made.

If a Non-Sale Acceleration Event occurs, the General Partner shall determine whether to make the Savings Surplus Election in respect of the Acceleration Date relating to such Acceleration Event.

In the case of a Dividend Stopper Non-Compliance Event a Savings Surplus Election will be treated as having been made with respect to the lower of (I) the then balance on the Savings Cashflow Tracking Account and (II) the aggregate amount paid by way of dividend or otherwise distributed or the value of the shares redeemed, repurchased or otherwise acquired in breach of the Dividend Stopper (to the extent not previously taken into account).

If a Sale Acceleration Event occurs, the General Partner will be deemed to make a Savings Surplus Election in respect of the deemed Annual Determination Date arising in respect of such Sale Acceleration Event if it made a Savings Surplus Election on or in respect of the previous Annual Determination Date, and, if it did not make a Savings Surplus Election on or in respect of the previous Annual Determination Date, it will determine whether to make the Savings Surplus Election in respect of the Acceleration Date relating to such Acceleration Event. If the transaction continues following a Sale Acceleration Event, the consequences of failing to make such an election described in the paragraph above will apply with respect to each subsequent Annual Determination Date.

If a Savings Surplus Election is not made, the Available Funds of the Issuer may be insufficient to pay interest and/or principal on the Notes or a Class of Notes. There can be no assurance that a Savings Surplus Election will be made. However, the General Partner will be incentivised economically to make such an election (see "*General Partner's incentive to apply Savings Cashflow Tracking balance*" below). In addition, the General Partner is a subsidiary of Bank of Ireland. If the Savings Surplus Election is not made, Bank of Ireland will be subject to the Dividend Stopper and may exercise its rights as shareholder to ensure that the election is made.

However, if a Bank of Ireland Insolvency Event occurs, the General Partner will be deemed to make a Savings Surplus Election on each relevant date thereafter, but only in respect of Annual Recourse Savings Cashflow Amounts added to the Savings Cashflow Tracking Account following such Bank of Ireland Insolvency Event.

#### **General Partner's incentive to apply Savings Cashflow Tracking Account balance**

To incentivise the General Partner to make the Savings Surplus Election, Bank of Ireland has entered into the GP Forward Subscription Agreement (see "*The General Partner Keepwell Agreement and the GP Forward Subscription Agreement*" below) pursuant to which Bank of Ireland agrees, broadly, to subscribe one or more shares in the General Partner, on the earlier of the Maturity Date and the date on which there is no balance on the IL Loan Account or on the Deficit Account, Missed Spread Account or Missed SLLPI EURIBOR Account, equal to the product of 101 per cent. and the aggregate amount paid on the SLLPI plus interest accruing at EURIBOR on a quarterly compounding basis from the date of the relevant payment, as a result of which the General Partner will receive more by making the Savings Surplus Election than if it did not.

While such an incentive falls away if Bank of Ireland becomes insolvent, the General Partner is deemed to make the Savings Surplus Election with respect to the Annual Recourse Savings Cashflow Amount arising in Accounting Periods ending after a Bank of Ireland Insolvency Event occurs (but may not make such an election in respect of the balance on the Savings Cashflow Tracking Account at the date the order is made).

In addition, if the General Partner does not make a Savings Surplus Election in respect of an Annual Determination Date on or before such date, a Dividend Stopper will occur with respect to Bank of Ireland (prior to a Bank of Ireland Insolvency Event occurring) unless the making of a Savings Surplus Election in respect of such date would have no effect on the amount payable by the Limited Partnership in respect of the SLLPI on that Annual Determination Date or any of the Distribution Payment Dates falling on or prior to the next Annual Determination Date.

#### **Risk of unforeseen expenses of the Issuer**

The Issuer's ability to pay interest and principal on the Notes is dependent on the receipt of funds from the Limited Partnership under the IL Loan and on the SLLPI. The payments under the IL Loan and on the SLLPI will include the Spread which in turn will include the "**LP Funded Expense Amount**" which will cover expenses ranking above payment of interest and principal on the Notes in the Priorities of Payment and certain other expenses of the Issuer. Payment of Spread to the Issuer is dependent on the Limited Partnership having funds available (as well as the Annual Recourse Insurance Cashflow Amount and, if a Savings Surplus Election is made, Annual Recourse Savings Cashflow Amount enabling such amounts to be paid). While the Support Agreement remains in place, Bank of Ireland will pay to the Limited Partnership any additional funds it requires to make payments of the Spread (subject to certain limitations following the occurrence of a Downgrade Direction Event), but following a Bank of Ireland Insolvency Event this obligation of Bank of Ireland will be terminated, so that the resources of the Limited Partnership for payment of all future payments of Spread will be limited to its then remaining assets.

#### **Risk that there is no scheduled amortisation of principal on the Notes**

During the Amortisation Period, where the Issuer has paid expenses ranking higher in the Priorities of Payment and still has Available Funds, it will apply any remaining Available Funds in payment of outstanding principal on the Class A-1 Notes and, when the outstanding principal has been reduced to zero, and subject to having funded expenses ranking higher in the Priorities of Payment, in payment of outstanding principal on the Class A-2 Notes. Other than in the case where the Liquidity Facility has been drawn to fund the Issuer Liquidity Reserve Account, the Issuer will not retain any of the Available Funds from one Distribution Payment Date to the next. As a result, it is possible that there

could be a large amount of Available Funds on one Distribution Payment Date, facilitating a significant principal payment on the Notes, and a shortfall in Available Funds on a subsequent Distribution Payment Date resulting in there being insufficient Available Funds to pay interest on the Notes. It is possible that this situation would arise because of surplus arising on the Dynamic Defined Block earlier than anticipated, meaning that surpluses that had been expected to emerge in later years will not do so (because of having emerged earlier). This risk is mitigated by the fact that if significant principal is paid on the Notes then the principal balance of the Notes will be lower, so that the Issuer will require lower amounts to fund ongoing payments of interest.

#### **Risk of changes to the definition of insurance contracts under IFRS 4 and of insurance contracts becoming savings contracts**

The Annual Recourse Insurance Cashflow Amounts, which are required to be determined as described in this Prospectus, arise in respect of contracts which are regarded as falling within the definition of “contracts of insurance” for the purposes of IFRS 4. Other contracts within the Dynamic Defined Block are referred to as “Savings Contracts”. Payments out of Annual Recourse Savings Cashflow Amounts are made only if a Savings Surplus Election is made. Accordingly, categorisation of contracts within the Dynamic Defined Block as Insurance Contracts or Savings Contracts may affect amounts payable by the Limited Partnership and accordingly the amount of Available Funds to pay Noteholders.

It is possible for a contract within the Dynamic Defined Block which is a Savings Contract to have benefits added to it as a result of which it would be redesignated as an Insurance Contract (for example, a pensions savings contract may have term assurance added at a later point, resulting in it becoming an Insurance Contract). Under IFRS 4, policies designated as “insurance” contracts cannot subsequently be redesignated as “savings” contracts.

The International Accounting Standards Board (“IASB”) produced a discussion paper entitled “Preliminary Views on Insurance Contracts” in May 2007 in respect of Phase 2 of its ongoing work on accounting for insurance policies. The introduction to this discussion paper notes that the IASB does not consider the continued appropriateness of the existing “insurance” and “savings” definitions in IFRS 4. The same introduction mentions that the IASB plans to consider the issue when it produces an exposure draft in the future, but later on in an appendix to the same discussion paper, the IASB's staff comment that they do not expect to recommend major changes to the current definitions of “insurance” and “savings” policies.

If the IASB goes ahead and decides to maintain substantially the existing definitions of “insurance” and “savings” policies, there still remains the risk that other decisions taken by the IASB could change the calculation methodology for valuing “insurance” and “savings” policies. In its discussion paper, the IASB has set out some potential changes to the future valuation of insurance contract VIF, which, if implemented, could possibly have a material impact on the size of the Projected Insurance VIF depending on how any such changes are interpreted by the industry and by individual companies.

#### **Dissolution of the Limited Partnership**

If the Limited Partnership is dissolved, the amount payable on the IL Loan would be the Liquidation Repayment and the amount payable on the SLLPI would be (x) the Liquidation Distribution (if a Savings Surplus Election is made in respect thereof) to the extent of any balance on the Savings Cashflow Tracking Account and (y) the return of the initial €1,000 capital contributed in respect of the SLLPI (with the possibility of an additional return of up to €1,000).

The partners have agreed, to the extent permitted by applicable law, not to dissolve the Limited Partnership, as have Bank of Ireland, Ambac and the Security Trustee. However, dissolution cannot be ruled out; in particular, if the General Partner is subject to insolvency proceedings or the Limited Partnership incurs liabilities and Bank of Ireland, in either case, fails to perform under the General

Partner Keepwell Agreement or the Support Agreement, a creditor may seek to wind up the General Partner (in which event dissolution of the Limited Partnership may follow) or to wind up the Limited Partnership. A partnership may also be dissolved for, *inter alia*, the following reasons:

- (i) by the happening of any event which makes it unlawful for the business of the firm to be carried on or for the members of the firm to carry on in partnership; or
- (ii) on application by a partner, the court may decree a dissolution of the partnership in any of the following cases:
  - (a) when a partner, other than the partner suing, becomes in any other way permanently incapable of performing his part of the partnership contract;
  - (b) when a partner, other than the partner suing, has been guilty of such conduct as, in the opinion of the court, regard being had to the nature of the business, is calculated to prejudicially affect the carrying on of the business;
  - (c) when a partner, other than the partner suing, wilfully or persistently commits a breach of the partnership agreement, or otherwise so conducts himself in matters relating to the partnership business that it is not reasonably practicable for the other partner or partners to carry on the business in partnership with him;
  - (d) when the business of the partnership can only be carried on at a loss; and
  - (e) whenever in any case circumstances have arisen which, in the opinion of the court, render it just and equitable that the partnership be dissolved.

A Dissolution Event is a Non-Sale Acceleration Event. If at such time the Projected Insurance VIF is less than the IL Loan Account Balance, the balance will need to be covered from the Projected Savings VIF. Projected Savings VIF will only be applied if the General Partner makes a Savings Surplus Election; if it does not, generally Bank of Ireland will be subject to a Dividend Stopper. However, if such Dissolution Event arises from either (x) Ambac taking or initiating any action or proceeding for the dissolution of the Limited Partnership (including, without limitation, by rescission or repudiation) or (y) any of the Issuer, the Security Trustee or other Secured Creditor taking or initiating any action or proceeding for the dissolution of the Limited Partnership as a result of a direction of or of encouragement given by Ambac at a time when it is the Controlling Creditor, such a Dividend Stopper will not arise.

#### **Risk of default on Limited Partnership investments**

The Limited Partnership will initially invest the proceeds of the IL Loan and the General Partner's and Initial Limited Partner's capital contributions and the dividend of €40,000,000 from a member of the Bank of Ireland Group in two deposits – the Floating Rate Deposit (in an amount equal to €400,000,000) and the Fixed Rate Deposit (in an amount equal to €40,021,000) with Bank of Ireland (see "*Description of the Deposit Agreements*").

The General Partner may only invest in Permitted Investments. Prior to a Downgrade Direction Event, "**Permitted Investment**" means any euro-denominated investment that is one or more of the following: (i) a deposit (including the Deposits) with a branch of Bank of Ireland in Ireland or the United Kingdom or a branch of Bank of Ireland (IOM) Limited in the Isle of Man provided that Bank of Ireland has guaranteed its obligations and provided that it gives notice confirming that it will recognise and comply with powers exercised pursuant to the Investment Powers of Attorney, in each case ranking *pari passu* with ordinary depositors of such institution, (ii) commercial paper or other money market debt instruments with a maturity of not more than 270 days from the date of issuance and having a rating at the time of such investment of "A-1+" by S&P and "P-1" by Moody's, (iii) a

marketable debt security listed on a regulated OECD exchange and issued by any government of any member state of the European Union or any agency having a guarantee by or the full faith and credit of any government of any member state of the European Union that has a long term senior debt rating of "AAA" by S&P and "Aaa" by Moody's which have a legal maturity earlier than the Maturity Date, provided that, in the case of (ii) and (iii) above, such investments shall be held with Bank of Ireland Securities Services Limited as custodian, acting through a branch in Ireland, the Isle of Man or the United Kingdom, and that such custodian gives notice confirming that it will recognise and comply with powers exercised pursuant to the Investment Powers of Attorney, and (iv) one non-voting class "A" share of €1.00 nominal amount in BoI Insurance Limited.

If Bank of Ireland ceases to have the Required Ratings, Ambac (if it is the Controlling Creditor) or, subject to it having received written notice that Bank of Ireland does not have the Required Ratings, the Security Trustee (if Ambac is not the Controlling Creditor), acting on the instructions of the Note Trustee, who will act as directed by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or by an Extraordinary Resolution of the holders of the Most Senior Class, shall direct the General Partner to realise the Limited Partnership's investments and to invest the proceeds in a replacement Permitted Investment (in the case of Ambac) or in a Nominated Deposit Bank which has agreed to take such deposit and which has (or whose obligations in respect of such deposit are unconditionally and irrevocably guaranteed by a person who has) the Required Ratings in accordance with the Deposits Policy if such investments are Deposits or as directed by the Note Trustee, itself as directed by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or by an Extraordinary Resolution of the holders of the Most Senior Class (in the case of the Security Trustee). If the General Partner fails to comply with the Downgrade Direction Notice by the end of the 30-day period, Ambac (if it is the Controlling Creditor) may, or the Security Trustee (if Ambac is not the Controlling Creditor) will, under the relevant Investment Power of Attorney, direct the realisations to be made and the investment of the proceeds in replacement Permitted Investments (in the case of the Security Trustee, either in accordance with the Deposits Policy or as directed by the Note Trustee as described above, and in either case via a delegate, appointed for such purpose, to arrange such realisation and reinvestment) (see "*Nature of the Support Agreement*" and "*Risks relating to insufficient return on the Limited Partnership's investments*" below).

Following a Downgrade Direction Event, "**Permitted Investment**" will also include the following, provided the same has been approved by Ambac (where it is the Controlling Creditor) or (other than deposits with the Nominated Deposit Banks) by the Security Trustee (where Ambac is not the Controlling Creditor) acting on the direction of the Note Trustee and are entered into on arm's length terms: (a) reinvestment agreements (so long as payments under any such reinvestment agreement are not subject to withholding taxes) issued by any bank or other institution (if treated as a deposit by such bank or other institution), or a registered reinvestment agreement issued by any insurance company or other corporation or entity organised under the laws of the United States of America or any state thereof, in each case, that has a credit rating of not less than "Aaa" by Moody's and not less than "AAA" by Standard & Poor's; provided that if the issuer thereof has a short-term rating from Standard & Poor's or Moody's, the issuer thereof must also have at the time of such investment a short-term credit rating of not less than "P-1" by Moody's and not less than "A-1" by Standard & Poor's; (b) any other investment similar to those described in (a) above that each of the Rating Agencies has confirmed in writing may be included as a Permitted Investment without resulting in a qualification, downgrade or withdrawal of any of its then current ratings on the Notes; and (c) any deposit with a Nominated Deposit Bank (being, initially, one of the following: Lloyds TSB Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Citibank N.A. and Bank of America N.A. or any other bank having the Required Ratings which is selected by Ambac (if it is the Controlling Creditor) provided that Permitted Investments shall not include: (I) any interest-only security or principal-only security, (II) any security purchased at a price in excess of 100% of the par value thereof or (III) any security the rating of which by Standard & Poor's includes the subscript "p", "pi", "q", "r" or "t".

### **Risks relating to insufficient return on the Limited Partnership's investments**

The General Partner may change the Limited Partnership's investments to other Permitted Investments. The General Partner will select the relevant investments unless a Downgrade Direction Notice has been given by Ambac (if it is the Controlling Creditor) or the Security Trustee (if Ambac is no longer the Controlling Creditor), acting on the instructions of the Note Trustee, that the Limited Partnership invest in replacement Permitted Investments.

In such a case the obligation of Bank of Ireland under the Support Agreement will not require it to fund the Limited Partnership to enable it to pay interest and principal on the IL Loan or make distributions on the SLLPI to the extent the insufficiency of funds is due solely to any Replacement Deposit Bank Deficiency, a Post-DDE Loss Amount or costs, losses, liabilities and expenses incurred by the Limited Partnership arising solely from it being invested in the replacement Permitted Investments. In such a case holders of the Class A-2 Notes are likely to suffer losses.

To the extent that a Replacement Deposit Bank Deficiency arises (see "*Description of the Support Agreement*"), amounts on the IL Loan and the SLLPI will be deferred and, ultimately, written off. (See "*Description of the Support Agreement*" below.)

### **Nature of the Support Agreement**

Prior to the first Downgrade Direction Transfer Date, the Support Provider will:

- (a) pay to the Limited Partnership an amount equal to the costs, expenses, taxes and other liabilities of the Limited Partnership (other than any amounts payable under or in respect of the IL Loan or the SLLPI or in respect of any other distributions of profit to any partner) on or before the date such cost, expense, tax or liability falls due for payment;
- (b) pay to the Limited Partnership on or before the date on which the same are incurred (i) an amount in respect of any break costs on any investment of the Limited Partnership at the time such break costs are incurred; (ii) an amount in respect of any withholding for or on account of tax in respect of any Permitted Investment of the Limited Partnership; and (iii) any Additional Amount which the Limited Partnership is required to pay on the IL Loan or the SLLPI; and
- (c) ensure that the Limited Partnership has sufficient funds on each due date to pay any amounts required to be paid on the IL Loan or as distributions in respect of the SLLPI when due (including to the extent not paid under (b) any Additional Amounts (as defined in, respectively, the IL Loan and the SLLPI) required to be paid in respect thereof).

On and following the first Downgrade Direction Transfer Date, the Support Provider shall:

- (a) pay to the Limited Partnership an amount equal to the costs, expenses, taxes and other liabilities of the Limited Partnership (other than any amounts payable under or in respect of the IL Loan or the SLLPI or in respect of any other distributions of profit to any partner) on or before the date such cost, expense or liability falls due for payment (including the costs (but excluding, for the avoidance of doubt, the acquisition cost) and expenses incurred by the Limited Partnership in respect of the reinvestment of the Limited Partnership's investments in replacement Permitted Investments pursuant to the direction in the Downgrade Direction Notice) but excluding the costs, losses, liabilities and expenses referred to in (c)(y) below;
- (b) pay to the Limited Partnership, on or before the date on which the same are incurred, an amount in respect of any Additional Amounts payable by the Limited Partnership under the IL Loan or the SLLPI following a Downgrade Direction Transfer Date but only to the extent that equivalent Additional Amounts would have been payable if the Limited Partnership had



continued to hold the assets that it was holding (the “**Pre-DDE Assets**”) immediately prior to the Downgrade Direction Transfer Date; and

- (c) ensure that the Limited Partnership has sufficient funds on each due date to pay any amounts required to be paid on the IL Loan or as distributions in respect of the SLLPI when due (excluding, save as provided in (b), any Additional Amounts (as defined in, respectively, the IL Loan and the SLLPI)) less an amount equal on each Distribution Payment Date to the sum of (x) any Replacement Deposit Bank Deficiency in respect of such Distribution Payment Date and (y) any costs, losses, liabilities and expenses suffered or incurred by the Limited Partnership that are suffered or incurred as a result solely of being invested in the replacement Permitted Investments which would not have been suffered or incurred if the Limited Partnership has continued to hold the Pre-DDE Assets (each a “**Post-DDE Loss Amount**”); and
- (d) on the date on which the investments of the Limited Partnership are reinvested in replacement Permitted Investments, pay to the Limited Partnership an amount equal to the Top Up Payment, which shall be invested as directed pursuant to the Downgrade Direction Notice.

Under the Support Agreement, each of the Limited Partnership and the General Partner will appoint Ambac and the Security Trustee as its attorney pursuant to the Investment Powers of Attorney to effect the realisation of investments and to reinvest in other Permitted Investments should the General Partner fail, within the 30-day period, to comply with the Downgrade Direction Notice. Each attorney may delegate its rights thereunder. The Security Trustee may need to appoint a delegate (the “**POA Delegate**”) to effect the realisation of investments and to reinvest the proceeds arising therefrom in replacement Permitted Investments. There is no guarantee that a POA Delegate would be found, which could delay such realisation which ultimately could adversely affect the interests of Secured Creditors (including the Noteholders). If, when Ambac is no longer the Controlling Creditor, the Security Trustee is unable to appoint a POA Delegate and is unable to effect a realisation of the investments, the proceeds would not be invested in other Permitted Investments and Noteholders would be exposed to the continued credit risk of the then current investments of the Limited Partnership for more than the 30 days following the delivery of the Downgrade Direction Notice. There can be no assurance that Ambac, the Security Trustee or any POA Delegate (as applicable) will be able to find Permitted Investments which will pay the same rates as Bank of Ireland is paying on the Floating Rate Deposit or the Fixed Rate Deposit; any deficiency is likely to become a Replacement Deposit Bank Deficiency and result in the IL Loan interest and/or principal and/or distributions which would otherwise have been payable on the SLLPI not being payable; this will result in Available Funds being less than would otherwise be the case and in Noteholders receiving less than would otherwise have been the case. Neither the Note Trustee nor the Security Trustee shall be responsible or liable to anyone for any loss occasioned by any delay in the appointment of a POA Delegate or by not being able to appoint a POA Delegate, nor shall they be liable for any loss suffered by any person as a result of any delay in investing in replacement Permitted Investments or not being able to invest in replacement Permitted Investments.

In addition, Bank of Ireland covenants in the Support Agreement that, it (i) shall not declare or pay any distribution or dividend or make any other payment on any of its ordinary stock, (ii) will procure that no distribution, dividend or other payment is made on any of its ordinary stock, and (iii) it shall not redeem, purchase, cancel, reduce or otherwise acquire any of its ordinary stock (provided that the foregoing shall not prevent BoI Life from acquiring ordinary stock of Bank of Ireland as part of assets allocated in part or in whole to liabilities to policyholders or any other member of the Group from acquiring ordinary stock on behalf of its clients as part of its asset management or other similar business) in each case in the period (the “**Dividend Stopper Period**”) after the occurrence of any of the following events until the earlier of the Dividend Stopper Remedy Date (as defined below) and the Distribution Payment Date falling in July 2032. The events (each a “**Dividend Stopper Event**”) are:

- (a) the Limited Partnership fails to pay amounts due on the IL Loan or the SLLPI after the expiry of any applicable grace periods provided (i) such failure is not because of a Replacement Deposit Bank Deficiency or Post-DDE Loss Amount and (ii) that no Force Majeure Event is then subsisting;
- (b) the General Partner does not make a Savings Surplus Election in respect of an Annual Determination Date (or a date treated as an Annual Determination Date for the purposes of making a Savings Surplus Election) on or before such date, unless (i) the making of a Savings Surplus Election in respect of such date would have no effect on the amount payable by the Limited Partnership in respect of the SLLPI on that Annual Determination Date or any of the Distribution Payment Dates falling on or prior to the next Annual Determination Date or (ii) such date is an Acceleration Date in respect of a Dissolution Event either (x) arising from Ambac taking or initiating any action or proceeding for the dissolution of the Limited Partnership (including, without limitation, by rescission or repudiation) or (y) arising from any of the Issuer, the Security Trustee or other Secured Creditor taking or initiating any action or proceeding for the dissolution of the Limited Partnership as a result of a direction of or encouragement given by Ambac at a time when it is the Controlling Creditor with the right, power or discretion to direct or prevent such event; or
- (c) provided that no Force Majeure Event has occurred and is continuing and no BoI Life Disposal Event has occurred and is continuing, BoI Life either (i) wilfully refuses to calculate the Annual Recourse Insurance Cashflow Amounts, the Annual Recourse Savings Cashflow Amount, the Projected VIF, the Projected Insurance VIF, the Projected Savings VIF, the Projected Balance Sheet Insurance VIF or the Projected Surplus under the Calculation Agreement (for the avoidance of doubt, inaccurate calculations shall not constitute wilful refusal unless deliberately inaccurate) or (ii) unreasonably and in bad faith prevents the Relevant Person or an Independent Actuary from accessing the information necessary for it to make such calculations for a period of at least 5 Business Days (provided that the Dividend Stopper will not apply to the extent that, following a BoI Life Asset Disposal Event, BoI Life's failure is attributable only to the performance or failure to perform of the purchaser).

For these purposes, a “Force Majeure Event” shall occur if there is any delay in performing or inability to perform an obligation if the same is due to act of God or public enemy, war, insurrections or riots, fire, flood, explosion, earthquake, accident, epidemic or quarantine restrictions or to any acts of government or of any governmental or regulatory or fiscal agency, or to strikes or labour troubles causing cessation, slow down or interruption of work, to the extent that it is beyond the reasonable foresight and control of the party concerned, and to the extent that the party concerned could not with reasonable endeavours nevertheless perform the obligation.

The “Dividend Stopper Remedy Date” is:

- (a) in the case of the Dividend Stopper Event in (a) immediately above, the date on which the Limited Partnership pays such amount together with any accrued interest on it;
- (b) in the case of the Dividend Stopper Event in (b) immediately above, the date on which the General Partner makes (or is deemed to make) a Savings Surplus Election and amounts which would have been payable had such an election been made are paid together with the amount of notional interest accruing thereon; and
- (c) in the case of the Dividend Stopper Event in (c) immediately above, the date on which BoI Life complies with its obligations under the Calculation Agreement to calculate the Annual Recourse Insurance Cashflow Amount, the Annual Recourse Savings Cashflow Amount, the Projected Insurance VIF, the Projected Savings VIF, the Projected Balance Sheet Insurance VIF and the Projected Surplus or, as applicable, permits access to the Relevant Person or Independent Actuary and, in either case, amounts which would have been payable had BoI

Life complied with such obligations are paid together with the amount of interest accruing thereon.

(See "*Description of the Support Agreement*" below.)

In the event of a Bank of Ireland Insolvency Event, the Support Agreement will terminate, in which situation the Limited Partnership's ability to make payments on the IL Loan and the SLLPI will be limited to amounts arising from its investments at that time.

If Bank of Ireland is subject to a requirement not to pay a dividend under the Support Agreement but nevertheless does so, an Acceleration Event occurs and the IL Loan is repayable at an amount equal to the Liquidation Repayment and a distribution will be made, if the General Partner makes the Savings Surplus Election, on the SLLPI of an amount equal to the Liquidation Distribution.

#### **Early Amortisation of the IL Loan and SLLPI**

In certain circumstances the Pre-Amortisation Period may end before July 2012 and no further Additional Policies may be added. See "*Transaction Summary – The Limited Partnership Interest and the Limited Partner Loan – Amortisation*" for a summary of the Amortisation Events.

The effect of adding Additional Policies in the Pre-Amortisation Period may, depending on the circumstances, be advantageous to Noteholders to the extent that the Projected VIF after adding such Additional Policies would be higher than the Projected VIF before such additions. Accordingly, Amortisation Events may be disadvantageous to Noteholders.

#### **Risks relating to holding Limited Partnership Interests**

Section 6(1) of the Limited Partnerships Act 1907 of England and Wales provides that a limited partner who takes part in the management of the partnership business becomes liable for the debts and obligations of the limited partnership incurred while he so does as though he were a general partner.

Although the Limited Partnership Agreement contains restrictions on the ability of the General Partner to incur indebtedness and confers no management powers on the Issuer, it cannot be completely excluded that the Limited Partnership will have debts or other obligations outside of the transaction and that the Issuer will become liable for them in the event that it is held to have taken part in the management of the partnership business (whether itself or because of any action on its behalf by any person). Under the Support Agreement, Bank of Ireland is required to make payments to the Limited Partnership which may fund such amounts (see "*Nature of the Support Agreement*" above).

#### **Risks related to the Limited Partnership being a collective investment scheme**

The Limited Partnership may be a collective investment scheme. If this were the case, any person acting by way of business in the United Kingdom as operator would be required to have permission under the Financial Services and Markets Act 2000 to do so. If the Limited Partnership were at any time to be a collective investment scheme and is or has been operated in the United Kingdom without an authorised scheme operator, the transaction as set out in the Limited Partnership Agreement and the other Transaction Documents could potentially be unenforceable. The General Partner has no business in the United Kingdom. If Ambac's or the Security Trustee's actions with respect to the Limited Partnership constitute operating it by way of business, they will need to be, or act through, a person with an appropriate permission. There can be no assurance that they will have at the relevant time, or be able to find a person to act on their behalf who has, at the relevant time, an appropriate permission.

### **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 the 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*".

### **Restrictions on transferring the IL Loan and the SLLPI**

Transfers of the IL Loan or the SLLPI may only be made (a) with the consent of the General Partner or (b) to or by any Receiver appointed by the Security Trustee following an enforcement of the Issuer Security.

In view of the risks associated with holding interests in a limited partnership (see above) it is unlikely that there will be any market for the SLLPI.

### **Suitability**

Prospective purchasers of Notes should ensure that they understand the nature of such Notes and the complex processes undertaken to calculate, directly and indirectly, the payments due thereon 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, actuarial, regulatory and financial evaluation of the merits and risks of investment in such Notes and that they consider the suitability of the 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 amount of the Projected VIF and other relevant structural features of the transaction, including, *inter alia*, the long-term, unsecured, unsubordinated and unguaranteed debt ratings of Bank of Ireland or, solely with respect to the ratings assigned to the Class A-1 Notes, the rating of Ambac's financial strength and claims paying ability (in respect of Scheduled Interest and Ultimate Principal due on the Class A-1 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 Scheduled Interest on the Class A-1 Notes and interest on the Class A-2 Notes on each Interest Payment Date, and (ii) the full and ultimate repayment to the Noteholders of all principal on the Notes on the 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 either Rating Agency's judgement, circumstances so warrant. Future events, including events affecting Bank of Ireland, BoI Life or (with respect to the Class A-1 Notes) Ambac, or circumstances relating to the policies, the Projected VIF 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. The Rating Agencies will receive a fee for providing ratings of the Notes and on-going surveillance fees, which will be paid by the General Partner.

### **Book-Entry Interests**

Unless and until Definitive Notes are issued in exchange for the Global Notes, holders and beneficial owners of Book-Entry Interests will not be considered the legal owners or holders of Notes under the

Trust Deed. After payment to the Principal Paying Agent, the Issuer will not have responsibility or liability for the payment of interest, principal or other amounts to the Common Depository or to holders or beneficial owners of Book-Entry Interests. The registered holders shown on the Register held with the Registrar will be the sole legal Noteholders under the Trust Deed while the Notes are represented by the Global Notes. Accordingly, each person owning a Book-Entry Interest must rely on the relevant procedures of Euroclear and Clearstream, Luxembourg and, if such person is not a participant in such entities, on the procedures of the participant through which such person owns its interest, to exercise any right of a Noteholder under the Trust Deed.

Payments of principal and interest on, and other amounts due in respect of, the Global Notes will be made to the nominee of the Common Depository. Upon receipt of any payment from the Issuer, Euroclear and Clearstream, Luxembourg as applicable, will promptly credit participants' accounts with payment in amounts proportionate to their respective ownership of Book-Entry Interests, as shown on their records. The Issuer expects that payments by participants or indirect participants to owners of interests in Book-Entry Interests held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participants or indirect participants. None of the Issuer, the Note Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, the Book-Entry Interests or for maintaining, supervising or reviewing any records relating to them.

Unlike Noteholders, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by or on behalf of the Issuer for consents or requests by or on behalf of the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg (as the case may be) and, if applicable, their participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Issuer Enforcement Event under the Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear and Clearstream, Luxembourg. There can be no assurance that the procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among participants or account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Note Trustee or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants or account holders of their respective obligations under the rules and procedures governing their operations.

Certain transfers of Notes or interests therein may only be effected in accordance with, and subject to, certain transfer restrictions and certification requirements (see "*Transfer Restrictions*" below).

#### **Ranking of the Notes**

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

### **Amortisation of the Notes**

The Issuer is required on each Interest Payment Date to apply the Available Funds (which includes amounts to be drawn down on the Liquidity Facility or from the Issuer Liquidity Reserve Account if and to the extent there would otherwise be insufficient Available Funds to fund interest on the Class A-1 Notes), after paying or providing for higher ranking amounts in the Pre-Enforcement Priority of Payments or the Post-Enforcement Priority of Payments, as applicable, in redeeming the Notes, the Class A-1 Notes being redeemed before principal on the Class A-2 Notes is payable.

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 factors referred to under "*Reliance on the Limited Partnership*" and "*Annual Recourse Cashflow Amount*". The amount of the Annual Recourse Cashflow Amounts, and the time at which they emerge depends on a number of factors (see "*Description of the Dynamic Defined Block*" below).

### **Acceleration of IL Loan and SLLPI**

The circumstances in which the IL Loan is accelerated and additional payments are made on the SLLPI are set out under "*Transaction Summary – The Limited Partnership Interest and the Limited Partner Loan – Acceleration of the IL Loan and SLLPI*". There can be no assurance that, if an Acceleration Event occurs, the amounts determined to be payable as Liquidation Repayment in respect of the IL Loan and the Liquidation Distribution in respect of the SLLPI (assuming a Savings Surplus Election is made or deemed made) will provide sufficient Available Funds to enable the Issuer to pay its creditors (including the Noteholders).

### **Subordination; Conflicts of Interest between Noteholders**

Payment of interest and principal on the Notes is subordinate to certain fees, costs and expenses and to certain payments to Ambac under the Financial Guarantee Reimbursement Agreement.

Payments of principal and interest in respect of the Notes will be made on Interest Payment Dates subject to and in accordance with the relevant Priority of Payments. In the event of the redemption of any Class of Notes, the Notes of that Class will be redeemed on a *pro rata* basis as between themselves. Each Class of Notes will at all times rank *pari passu* within that Class and without any preference amongst Notes of that Class.

#### *Pre-Enforcement:*

##### *Interest*

Prior to delivery of an Enforcement Notice, payments of interest in respect of the Class A-1 Notes (other than interest accrued on unpaid interest which will rank junior to interest in respect of the Class A-2 Notes but senior to principal on the Class A-2 Notes) will rank senior in right of payment to payments of interest and principal in respect of the Class A-2 Notes.

##### *Principal*

Prior to delivery of an Enforcement Notice, repayment of principal in respect of the Class A-1 Notes will rank senior in right of payment to the repayment of principal in respect of the Class A-2 Notes, but principal will be payable after interest on the Class A-1 Notes (other than interest accrued on unpaid interest) and Class A-2 Notes has been paid (except on the Maturity Date, on which date payment of interest (other than interest accrued on unpaid interest) and principal on the Class A-1 Notes will be payable prior to any interest or principal on the Class A-2 Notes).

*Post Enforcement:*

*Interest and Principal*

Following delivery of an Enforcement Notice, interest and principal on the Class A-1 Notes are payable before interest and principal on the Class A-2 Notes.

To the extent that any losses are incurred by the Issuer in respect of any Issuer Security, such losses will be borne first by the Class A-2 Noteholders, then by the Class A-1 Noteholders.

The Class A-2 Notes may not be redeemed before the Class A-1 Notes.

*Conflicts amongst Noteholders*

The Trust Deed provides that in the event of any conflict of interest between the Class A-1 Noteholders and the Class A-2 Noteholders the interests of the Class A-1 Noteholders will prevail. Ambac (so long as no Ambac Event of Default has occurred and is continuing and any of the Class A-1 Notes is outstanding or any amounts remain unpaid under the Financial Guarantee Reimbursement Agreement) will be the Controlling Creditor in respect of the actions of the Note Trustee with respect to the Issuer Security and may act without taking any account of the interests of the Noteholders or either Class of Noteholders and shall not be liable to any person for any loss arising from so acting.

While Ambac is the Controlling Creditor, only Ambac will, and the Noteholders, the Note Trustee (unless directed by Ambac) and the other Secured Creditors will not, have any right to direct the Note Trustee to proceed against the Issuer to enforce the provisions of the Trust Deed and the Notes (including, commencing or taking any insolvency proceedings or taking any other steps against the Issuer for the purpose of obtaining payment of any amount due or owing to it by the Issuer) or to direct the Note Trustee to direct the Security Trustee to enforce the Issuer Security.

**Subordination of Noteholders to rights of Ambac**

Where amounts are owed by the Issuer to Ambac under the Ambac Fee Letter or the Financial Guarantee Reimbursement Agreement, the Issuer's obligations in respect thereof will rank in priority to certain payments to be made in respect of each Class of Notes (including unpaid interest on the Class A-1 Notes, and notwithstanding that an Ambac Event of Default may have occurred). The premium payable to Ambac can be increased in certain instances, including as a result of a reduction in the private shadow rating of the Notes (being the rating assigned ignoring the benefit of the Ambac Financial Guarantee) and where the calculations required under the Calculation Agreement are not made. In addition, the interest rate payable to Ambac under the Financial Guarantee Reimbursement Agreement is higher than the rate of interest payable on the Class A-1 Notes. Therefore, if Ambac makes a payment in respect of Scheduled Interest, the interest payable to Ambac thereon will exceed the interest that would have been payable to the Class A-1 Noteholder if Ambac had not made the payment. In so far as there is a shortfall in transaction cashflows, the first loss will be suffered by the holders of the Class A-2 Notes, so if higher rates of payment to Ambac become due as described above, there will be an increase in the risk to Class A-2 Noteholders that transaction cashflows will be insufficient for them to be paid in full.

**Withholding Tax in respect of the Notes**

Under current law all payments to Noteholders who are not individuals in respect of the Notes will be made free from any withholding or deduction for or on account of any tax imposed in Luxembourg subject to the qualifications set out in "*Tax Considerations*".

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.

#### **Withholding Tax in respect of the IL Loan, the SLLPI and the Deposits**

If tax is required to be withheld or deducted under the Deposits, Bank of Ireland will, under the Support Agreement, pay an amount equal to the amount so withheld.

If tax is required to be withheld under the IL Loan or the SLLPI, the Limited Partnership is required to pay additional amounts so that the amount received by the Lender or Holder (as applicable) is the amount it would have been had there been no withholding or deduction. To the extent that the Limited Partnership has insufficient funds to pay the additional amounts, Bank of Ireland will, prior to a Downgrade Direction Event, be required to ensure that the Limited Partnership has sufficient funds to pay amounts on the IL Loan and SLLPI (including any Additional Amounts in respect of any withholding). If, following a Downgrade Direction Transfer Date, a withholding arises, Bank of Ireland is not required to fund the Additional Amounts save to the extent such Additional Amounts would have been payable if the Limited Partnership had continued to hold the assets it was holding immediately prior to the Downgrade Direction Transfer Date (and any unfunded additional amounts will, accordingly, form part of any Replacement Deposit Bank Deficiency).

#### **EU Competition – State Aid**

The Issuer is a securitisation company incorporated under the laws of Luxembourg by virtue of the law dated 22 March 2004 on securitisation (the “**Securitisation Law**”). The Securitisation Law sets forth a specific tax regime benefiting securitisation undertakings, including securitisation companies created under the Securitisation Law, such as the Issuer.

On 13 February 2006, the EU Commission (the “**Commission**”) wrote to the Luxembourg Government, requesting information from it in respect of the Luxembourg Securitisation Law and the Luxembourg law on investment companies in risk capital (SICAR) (Law of 15 June 2004) as regards the compatibility of these laws with European legislation relating to the provision of State Aid.

If the Commission determines that a legislative regime is in breach of EU legislation relating to the provision of State Aid, it could (as a worst case scenario) require that such legislation be repealed, depending upon the circumstances. In addition, the Commission could require that such legislation be repealed with retrospective effect.

Given that the process remains at a very preliminary stage, it is impossible to assess the impact, if any, of the Commission’s request for information made to the Luxembourg Government.

Even if the tax regime provided for in the Securitisation Law were repealed, it is unlikely that this would have a material adverse effect on the funds available to the Issuer to satisfy its obligations under the Notes. The most likely consequence of the repeal of the Securitisation Law is that the Issuer would be required to make an annual net wealth tax payment of €62. However, there would be no impact on the tax deductibility of interest paid by the Issuer under the Notes or on the exemption from withholding tax on payments made under the Notes.

#### **Other Tax Considerations**

Investors in the Notes should review carefully the tax considerations set forth in “*Tax Considerations*”.



## **Rights of Ambac**

Under the relevant Priority of Payments, any Financial Guarantee Fees due and payable to Ambac under the Financial Guarantee Reimbursement Agreement and the Issuer Ambac Fee Letter are senior in right of payment to any payment of interest on or principal of the Notes. The Ambac Financial Guarantee covers, in accordance with its terms and conditions, payments of Scheduled Interest and Ultimate Principal on the Class A-1 Notes. To the extent that Ambac makes a payment of a claim under the Ambac Financial Guarantee or the Ambac Liquidity Facility Financial Guarantee, the Issuer will immediately become obliged under the Financial Guarantee Reimbursement Agreement to reimburse Ambac for the amount of the payment, together with interest thereon. The Issuer's obligation to reimburse Ambac for any amounts that Ambac has paid to the Class A-1 Noteholders in respect of Scheduled Interest or principal on the Class A-1 Notes will rank higher in the Pre-Enforcement Priority of Payments and the Post-Enforcement Priority of Payments than the Issuer's obligation to pay interest or principal on the Class A-2 Notes.

Under the Trust Deed Ambac has certain rights to require the Note Trustee to act as directed (other than with respect to any Basic Terms Modification or Reserved Matters). When acting at the direction of Ambac (if Ambac is then, or the Note Trustee is entitled to assume that Ambac is then, the Controlling Creditor), the Note Trustee shall have no duty to take into account the interest of Noteholders and no liability for acting in accordance with such directions. Ambac, however, will have a right of consent as a party to the relevant Transaction Document to a Basic Terms Modification or Reserved Matter if the modification or matter (other than in respect of the Ambac Financial Guarantee) is one as to which Ambac would otherwise have had a right of consent if it were not a Basic Terms Modification or Reserved Matter.

In addition, Ambac will generally be the Controlling Creditor under the Issuer Deed of Charge, as to which see "*Rights of the Controlling Creditor*" below.

## **Rights of the Controlling Creditor**

The right to direct the Security Trustee to take certain action, including, *inter alia*, to enforce the security created under the Issuer Deed of Charge is given to the Controlling Creditor. So long as no Ambac Event of Default has occurred and has not been cured or waived and any of the Class A-1 Notes remains outstanding or any amounts remain unpaid under the Financial Guarantee Reimbursement Agreement, Ambac will be the Controlling Creditor. Ambac, as the Controlling Creditor, has no obligation to have regard to the interests of the Noteholders or any of the 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.

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

In relation to certain matters and the variation of the terms of the Transaction Documents, the consent of Ambac is required. The consent of the Noteholders is not required in relation to such matters (which do not include any Basic Terms Modifications or Reserved Matters, as to which Ambac will have a right of consent if the modification or matter (other than in respect of the Ambac Financial Guarantee) is one in respect of which Ambac would otherwise had had a right of consent as a party to the relevant Transaction Document if it were not a Basic Terms Modification or Reserved Matter). In certain circumstances, the Security Trustee and the Note Trustee (as applicable) will be obliged to give such consent if certain conditions are met. In certain circumstances, Ambac (if it is the Controlling Creditor) will have the right to direct the Note Trustee and the Security Trustee as to how each exercises its rights under the Transaction Documents (other than in respect of Basic Terms Modifications and Reserved Matters as noted above). Ambac, as the Controlling Creditor has no obligation to have regard to the interests of the Noteholders or any of the Secured Creditors and the Note Trustee and Security 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 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, 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 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**

The General Partner is a wholly-owned subsidiary of Bank of Ireland. It has undertaken with Bank of Ireland not to carry on any business other than as General Partner of the Limited Partnership and not to incur any indebtedness other than that ancillary to its business as General Partner.

To economically incentivise the General Partner to make a Savings Surplus Election, the Bank of Ireland has entered into the GP Forward Subscription Agreement with the General Partner under which Bank of Ireland is required to subscribe one or more additional shares for an amount equal to the product of 101 per cent. and the aggregate amount paid on the SLLPI plus interest accruing on a quarterly compounding basis from the date of the relevant payment.

BoI Life is a wholly-owned subsidiary of Bank of Ireland. BoI Life will act as the VIF Calculation Agent pursuant to the Calculation Agreement. Beyond its obligations as VIF Calculation Agent, none of the Transaction Documents imposes any obligation on BoI Life to run its business in any way. In particular, it is not required to have any regard to the interests of the Noteholders or the Limited Partnership. If it runs its business in such a way that any Business Assumption is or becomes invalid, certain adjustments to the calculations of the Annual Recourse Cashflow Amount and Projected VIF may be required to compensate for such invalidity. See further "*Description of the Dynamic Defined Block – Invalidity Determinations*" below.

### **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. 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.

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

The Maturity Date of the Notes is the Interest Payment Date falling in July 2032; however, the average life of the Notes is expected to be shorter than the number of years until the Maturity Date. Average life refers to the weighted average amount of time that will elapse from the date of delivery of a debt obligation until each Euro 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 rate at which the Annual Recourse Cashflow Amounts emerges (as to which see "*Description of the Dynamic Defined Block*" below).

Assuming that the Base Case were applicable following the commencement of the Amortisation Period following the Annual Determination Date in 2012 and that no partial amortisation occurs prior to the commencement of the Amortisation Period, the average life of the Notes issued on the Closing

Date would be expected to be 7.8 years in the case of the Class A-1 Notes and 11.6 years in the case of the Class A-2 Notes.

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 “*Description of the Dynamic Defined Block*” below.

### **Security**

- (a) **Fixed Charge:** Although the security constituted by the Issuer Deed of Charge over the assets of the Issuer held from time to time, including the security over the Issuer’s bank accounts, is expressed to take effect as fixed security, it may (as a result, *inter alia*, of the payments to be made from the Issuer’s bank accounts in accordance with the Conditions and the Issuer Deed of Charge) take effect as a floating charge which, in particular, would rank after a subsequently created fixed security interest. However, the Issuer has covenanted not to create any such subsequent security interests without the consent of the Controlling Creditor and, unless Ambac is the Controlling Creditor, 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 and security interests created pursuant to it 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 contain a further assurance clause under which the Issuer agrees to take such further action as the Security Trustee may require to ensure that it creates valid security over its assets in favour of the Security Trustee. In particular, any floating charge created by the Issuer pursuant to the Issuer Deed of Charge may not be recognised, and may not be effective during Luxembourg insolvency proceedings in relation to the Issuer.

### **Change of Law**

The structure of the issue of the Notes and the ratings which are to be assigned to them are based on English law in effect as at the date of this document. No assurance can be given as to the impact of any possible change to English law or administrative practice in the United Kingdom after the date of this document.

### **Investors to consider laws and regulations applicable to an acquisition of Notes**

Prospective purchasers should consult their own advisers as to the consequences to and affect on them of the acquisition of the Notes under all applicable taxation, accounting, legal and regulatory provisions, including the potential application of the new Basel Capital Accord proposals and implementation of the Capital Requirements Directive.

### **Market Disruption**

Each Note’s Floating Rate of Interest will be the aggregate of EURIBOR and the relevant Margin determined in accordance with Condition 5 (*Interest*). Condition 5 (*Interest*) contains provisions for the calculation of EURIBOR based on rates given by various market information sources and alternative methods should such market information sources be unavailable. The market information sources might become unavailable for various reasons including suspensions or limitations on trading, events which affect or impair the ability of market participants in general, or early closure of market institutions.

The Transaction Documents will ensure that the mechanics for determining EURIBOR are identical for the Deposits and the Notes.

### **Market Risk**

Investment in the Notes of any Class involves a degree of risk arising from fluctuations in the amount and timing of receipt by or on behalf of the Issuer of payments of interest and repayments of principal on the IL Loan and payment of distributions on the SLLPI by the Limited Partnership and the amounts of the claims of creditors of the Issuer ranking in priority to the holders of each Class of the Notes.

### **Luxembourg Insolvency Issues**

If the Issuer fails for any reason to meet its obligations or liabilities to a creditor who has not agreed not to make an application for the commencement of winding-up or similar proceedings against the Issuer, such creditor may be entitled to make an application for the commencement of insolvency proceedings against the Issuer. The commencement of such proceedings may entitle creditors to terminate contracts with the Issuer and claim damages for any loss arising from such early termination. The commencement of such proceedings may result in the Issuer's assets being realised and applied to pay the fees and costs of the liquidator, debts preferred by law and debts payable in insolvency, before any surplus is distributed to the holders of debt securities. In the event of proceedings being commenced, the Issuer may not be able to pay the amounts anticipated by the Conditions.

### **UK Insolvency Issues**

#### *The Issuer*

Should the Issuer be subject to insolvency or liquidation in England, the transactions contemplated in the Notes or the Relevant Agreements could be affected if certain sections of the Insolvency Act 1986 (the "**Insolvency Act**") apply and certain conditions set out in those provisions are met. In addition, the security granted by the Issuer in the Deed of Charge may be subject to restrictions on enforcement should the Issuer be subject to administration in England or should the directors of the Issuer obtain a moratorium under Section 1A of the Insolvency Act in connection with an intended proposal for a company voluntary arrangement.

Council Regulation (EC) No. 1346/2000 of 29 May 2000 which came into force on 31 May 2002 (the "**EU Insolvency Regulation**") provides that where a company has its "centre of main interests" in a Member State of the European Union (other than Denmark), "insolvency proceedings" (which term means the collective proceedings listed in Annex A to the EU Insolvency Regulation) may be opened in such Member State. The EU Insolvency Regulation does not define "centre of main interests" but under Article 3(1) of the EU Insolvency Regulation there is a rebuttable presumption that a company has its "centre of main interests" in the jurisdiction in which it has its registered office, which in the case of the Issuer would be Luxembourg. However, Recital 13 of the EU Insolvency Regulation states that the centre of main interests should correspond to the place where the company conducts the administration of its interests on a regular basis and is therefore ascertainable by third parties. The EU Insolvency Regulation also provides that where the centre of main interests of a company is in a Member State (other than Denmark), if that company also has an "establishment" in a Member State (other than Denmark), then "secondary proceedings" may be opened in respect of that company in such Member State (and in certain limited circumstances, "territorial insolvency proceedings"). "Secondary proceedings" are limited to winding-up proceedings and are set out in Annex B to the EU Insolvency Regulation. "Establishment" is defined in the EU Insolvency Regulation as a place of operations where the debtor carries out a non-transitory economic activity with human means and goods.

The Issuer will covenant in the Trust Deed to maintain its “centre of main interests” in Luxembourg and not to have an “establishment” in any Member State other than Luxembourg. However, given the location of the Security Trustee in England and Wales, the Issuer’s main assets being the IL Loan to the English Limited Partnership and the SLLPI being an interest in the Limited Partnership and the Issuer’s Accounts being in London, there can be no assurance that the centre of main interests of the Issuer would not be determined to be in England and Wales or, alternatively, that it would not be found to have an establishment in England and Wales. In addition, there are certain routes pursuant to which an English insolvency regime might potentially be applicable to the Issuer. Section 254(1) of the Enterprise Act 2002 provides that the Secretary of State may by order provide for a provision of the Insolvency Act to apply (with or without modification) in relation to a company incorporated outside Great Britain. Any such order must be made by statutory instrument. No such order has yet been made; however, the possibility of such an order means that the administration provisions of the Insolvency Act could be held to be applicable to the Issuer.

The Cross-Border Insolvency Regulations 2006 (the “**UNCITRAL Regulations**”) provide that the Model Law on cross-border insolvency as adopted by the United Nations Commission on International Trade Law on 30 May 1997 (the “**UNCITRAL Model Law**”) has the force of law in Great Britain, subject to certain modifications to adapt it for application in Great Britain. The UNCITRAL Regulations apply where (i) assistance is sought in Great Britain by a foreign court or a foreign representative in connection with a foreign proceeding, or (ii) assistance is sought in a foreign state in connection with a proceeding under British insolvency law, or (iii) a foreign proceeding and a proceeding under British insolvency law in respect of the same debtor are taking place concurrently or (iv) creditors or other interested parties in a foreign state have an interest in requesting the commencement of, or participating in, a proceeding under British insolvency law. In the event that the Issuer may in the future become subject to any English insolvency proceedings, certain matters relevant to this are analysed below.

If the Issuer were to be found to have its “centre of main interests” in England and Wales, or the English insolvency regime were otherwise applicable, it would be open to its directors to appoint an administrator of the Issuer without the need for a court order pursuant to an “out of court” appointment procedure, any creditor holding a qualifying floating charge to appoint an administrator of the Issuer “out of court” or for the Issuer, its directors or any creditor to apply to the court for an administration order. If the Issuer were to go into administration in England, a statutory moratorium would apply to, amongst other things, enforcement of security over its assets. In addition, an administrator (with the permission of the court in the case of property subject to fixed security) may dispose of property subject to any security. Where the administrator disposes of property subject to a floating charge, the holder of the floating charge will have the same priority in respect of any property which directly or indirectly represents the property disposed of, as he had in respect of the property disposed of. Where the administrator disposes of property secured by security other than a floating charge, the net proceeds of disposal must be applied towards discharging the sum secured by the property. In the event that the Issuer has an “establishment” in England and Wales, the Issuer, its directors, any creditors of the Issuer and any shareholders of the Issuer would be able to apply to the Court for a winding-up order in respect of the Issuer.

The Enterprise Act 2002 (the “**Enterprise Act**”) has amended English insolvency law so that, subject to certain exceptions, secured creditors holding security including a qualifying floating charge over all or substantially all of the assets of a company can no longer appoint an administrative receiver and so prevent the company becoming subject to administration. Although the floating charge to be granted by the Issuer may be a qualifying floating charge and, if it is, such charge may fall within the “capital markets arrangement” exception to the prohibition on appointment of an administrative receiver, as the Issuer is not formed and registered under the Companies Act 1985 of Great Britain, the better view is that as such it would not be possible in any event to appoint an administrative receiver of the Issuer (in which case, the question of whether any exception to the prohibition on the appointment of an administrative receiver applies, becomes redundant). However, the Security Trustee should still be able to appoint a receiver with respect to the Issuer, who could enforce the security in much the same

way as an administrative receiver, although the appointment of such a receiver could not prevent the appointment of an administrator and, in the event of the appointment of an administrator, the receiver would have to vacate office if required to do so by the administrator. If the centre of the Issuer's main interests is determined to be in the United Kingdom, the Security Trustee may be able to appoint an administrator of the Issuer.

The Enterprise Act also inserted a new s176A into the Insolvency Act, which provides that where a company has gone into liquidation or administration, or where there is a provisional liquidator or receiver (whether or not an administrative receiver), a "prescribed part" of the company's net property is to be applied in satisfaction of debts due to unsecured creditors in priority over debts secured only by a floating charge. A company's "net" property for this purpose is the portion of a company's property which would otherwise be available to satisfy the claims creditors secured only by a floating charge. As at the date of this Prospectus, the "prescribed part" has been set at 50 per cent. of the first £10,000 of a company's net property and 20 per cent. thereafter up to a maximum prescribed part of £600,000. The liquidator, provisional liquidator, administrator or receiver may disapply this rule in certain circumstances.

While certain of the covenants to be given by the Issuer are intended to ensure that the Issuer does not have any creditors other than the Secured Creditors, it will be a matter of fact as to whether it has any other creditors at any time. To the extent that the Issuer's assets are subject to fixed charges, such assets will be outside the Issuer's "net property". However, to the extent that any of the Issuer's assets are subject only to a floating charge, in the event of the appointment of a liquidator, administrator, provisional liquidator or receiver of the Issuer the provisions of section 176A of the Insolvency Act would result in the prescribed part of the assets which would otherwise be available to satisfy the claims of any secured creditors (including the Secured Creditors) being used to satisfy the claims of unsecured creditors.

If an entity is subject to winding up or administration, the expenses of winding up (when section 176ZA of the Insolvency Act comes into force, expected to be 6 April 2008) and administration have priority over secured creditors' claims to property subject to a floating charge.

#### *The Limited Partnership*

If the Limited Partnership were found to have its "centre of main interests" in England and Wales, it would be open to its members to appoint an administrator of the Limited Partnership without the need for a court order pursuant to an "out of court" appointment procedure or for its members or any creditor to apply to the court for an administration order. If the Limited Partnership were to go into administration in England, no legal process (including legal proceedings) could be instituted or continued against the Limited Partnership or its property except with the consent of the administrator or with the consent of the court.

#### *The Issuer and the Limited Partnership*

Both the Issuer and the Limited Partnership have been structured so that the likelihood of either becoming insolvent is remote. Each is subject to substantial restrictions on its activities and each is expressly prohibited from having employees, owning premises or establishing or acquiring subsidiaries. In addition, contractual provisions are also contained in the agreements to which each of the Issuer and Limited Partnership are respectively parties that will prohibit the other parties to those agreements from initiating insolvency proceedings against them.

#### **Bank of Ireland Insolvency Issues**

Bank of Ireland is subject to winding-up under the Irish Companies Acts 1963 to 2006 and the Irish Central Bank Acts 1942 to 2004. The circumstances in which Bank of Ireland might be subject to a winding-up order include inability to pay its debts. If Bank of Ireland is subject to certain insolvency

proceedings the Support Agreement will terminate (see "*Description of the Support Agreement*" below).

## DESCRIPTION OF THE DYNAMIC DEFINED BLOCK

### Introduction

The “**Dynamic Defined Block**” as at 30 June 2007 (the “**Base Case Date**”) consists of the unit-linked life assurance business and unit-linked pensions business (excluding Class VII business (management of group pension funds)) originated by BoI Life (or its predecessor entities) on or before the Base Case Date, as recorded on a computer disc prepared for the purpose (the “**Disc**”).

The Dynamic Defined Block consists of two blocks (which are relevant to the calculations of surplus emerging and projections of surplus and determining amounts which can be paid in respect of the IL Loan and the SLLPI, and therefore in determining amounts that may be paid to Noteholders). The two blocks are the Insurance Block and the Savings Block. The “**Insurance Block**” consists of those policies within the Dynamic Defined Block which are insurance contracts for the purposes of International Financial Reporting Standard 4 (“**IFRS 4**”) (“**Insurance Contracts**”). The “**Savings Block**” consists of those policies which are not in the Insurance Block (“**Savings Contracts**”).

### Summary of the Relevance of the Dynamic Defined Block and of the distinction between the Insurance Block and the Savings Block

The principal resource available to the Issuer to make payments under the Notes (excluding the amounts available in accordance with the applicable Priority of Payments under the Liquidity Facility and, in the case of the Class A-1 Notes, amounts payable under the Ambac Financial Guarantee) will be the amounts it receives from the Limited Partnership on the IL Loan and SLLPI. The amounts payable by the Limited Partnership in respect of the IL Loan and SLLPI on each Distribution Payment Date depend on the Annual Recourse Insurance Cashflow Amounts, the Annual Recourse Savings Cashflow Amounts, the Savings Cashflow Tracking Account Balance and whether or not the General Partner makes a Savings Surplus Election in respect of the relevant Annual Determination Date. In addition, whether the transaction is in the Pre-Amortisation Period (and if so whether partial amortisation is required) or in the full Amortisation Period depends on calculations based on Projected VIF, Projected Insurance VIF, Projected Savings VIF and whether an IL Impairment has occurred. Accordingly, to understand some of the risks in respect of the Notes, investors will need to understand:

- (a) how these (and related) amounts are calculated and the risks which may result in the amounts so calculated being lower than projected in the Base Case, as to which see below;
- (b) how the amounts so calculated are then allocated in the Partnership Accounts to determine what (if any) amounts are payable as interest and principal on the IL Loan or as a distribution on the SLLPI (as to which see “*Terms and Conditions of the Insurance-linked Loan and the Savings-linked Limited Partnership Interest – Operation of the Capital Accounts, Distributions of Profit and Payments in respect of the IL Loan*”);
- (c) what incentivises the General Partner to make a Savings Surplus Election (as to which, see “*Risk Factor – Savings Surplus Election*” and “*General Partner’s incentive to apply Savings Cashflow Tracking Account balance*”) and, therefore, to enable, among other things, Annual Recourse Savings Cashflow Amounts remaining in the Savings Cashflow Tracking Account to be applied towards covering Savings Spread and any balance on the Deficit Account arising from an IL Impairment); and
- (d) the funds available to the Limited Partnership to pay the amounts determined to be due from the Limited Partnership to the Issuer (as to which see, principally, “*Description of the Deposit Agreements*”, “*Description of the Support Agreement*” and with respect only to the Class A-1 Notes, “*Form of Ambac Financial Guarantee*”).



Certain aspects of the calculations are summarised in “*Transaction Summary – The Limited Partnership Interest and the Limited Partner Loan*”, “*Risk Factors – Restrictions on amounts payable under the IL Loan and SLLPF*” and are set out in more detail below and under “*Terms and Conditions of the Insurance-linked Loan and the Savings-linked Limited Partnership Interest – Operation of the Capital Accounts, Distributions of Profit and Payments in respect of the IL Loan*”.

### **The Dynamic Defined Block**

The policies included in the Dynamic Defined Block as at the Base Case Date consist of unit-linked life assurance policies and unit-linked pensions policies (excluding Class VII business (management of group pension funds)) originated by BoI Life (or its predecessor entities) on or before the Base Case Date, as recorded on the Disc. A summary of the principal policy types broken down by reference to the above categories and a summary of certain of their features is included at Appendix 2.

The unit-linked life assurance business and the unit-linked pensions business has been originated by BoI Life through both Bank of Ireland’s branch network in Ireland (the “**Bank Channel**”) and through independent intermediaries and its own direct sales force (the “**Broker/DSF Channel**”).

All policies within the Dynamic Defined Block as of the Base Case Date were originated in Ireland.

The unit-linked life assurance business consists of protection policies and both lump sum and regular premium savings policies, primarily equity and property related.

The unit-linked pensions business consists of pensions and other retirement planning products for groups and individuals. It does not include annuities in payment.

### **Summary of the Unit-Linked Life Assurance Business**

The unit-linked life assurance policies fall into the following primary product groups:

- single premium business: these are predominantly Insurance Contracts;
- protection business: these are predominantly Insurance Contracts;
- savings business: these are predominantly Savings Contracts.

### **Summary of the Unit-Linked Pensions Business**

The unit-linked pensions policies fall into the following primary product groups:

- group business: these are a mix of Savings Contracts and Insurance Contracts; and
- individual business: these are predominantly Savings Contracts.

### **New Business**

The Dynamic Defined Block may, as described above and in “*Inclusion of Additional Policies in the Dynamic Defined Block*” below, include additional policies meeting the Eligibility Criteria originated after the Base Case Date if certain tests are met (as described in “*Inclusion of Additional Policies in the Dynamic Defined Block*” below) (“**Additional Policies**”). If Additional Policies are to be included, all Additional Policies meeting the Eligibility Criteria originated in a particular Accounting Period will be included. If an Amortisation Event occurs prior to the Annual Determination Date falling in July 2012, no further Additional Policies may be included. In any event, no Additional Policies may be included in respect of Accounting Periods ending after March 2012. The rules for including Additional Policies are set out in “*Inclusion of Additional Policies in the Dynamic Defined Block*” below.

## **Summary of calculations of Annual Recourse Cashflow Amounts, Projected VIF and ancillary calculations in respect of the IL Loan and the SLLPI**

### **Overview**

The following section summarises:

- the method for calculating the Annual Recourse Cashflow Amount, the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount, certain risks to the emergence of Annual Recourse Cashflow Amount and certain risks which affect these amounts;
- the method for calculating the Projected VIF, the Projected Insurance VIF and the Projected Savings VIF and certain risks which affect these amounts;
- certain business assumptions made in connection with the transaction and the adjustments to the Annual Recourse Cashflow Amounts and Projected VIF (and subsidiary calculations) required if such assumptions prove to be incorrect; and
- when Additional Policies are required to be included in the Dynamic Defined Block to maintain the transaction in the Pre-Amortisation Period.

### **Introduction to calculation of the Annual Recourse Cashflow Amount**

On each “**Annual Determination Date**” (being, initially, the Distribution Determination Date falling prior to the July Distribution Payment Date in each year from and including July 2008 to and including July 2032), the VIF Calculation Agent will be required to calculate, in accordance with the procedures set out in the Limited Partnership Agreement (see “*The Procedures for determining the Annual Recourse Cashflow Amount and the Projected VIF*” below for a summary of the procedures) (the “**Procedures**”) the Annual Recourse Cashflow Amount in respect of the immediately preceding Accounting Period (the “**Relevant Accounting Period**”). An “**Accounting Period**” is the period from (and excluding) the third Sunday in March of a year (the “**Accounting Date**”) to (and including) the third Sunday in March of the following year. If Bank of Ireland changes its financial year end from 31 March in each year, the Annual Determination Date will be moved to be in the fourth month following the new financial year end and the Accounting Date shall be changed to coincide with such new financial year-end date; notwithstanding such change, if the last Accounting Date would fall on a date other than in March in 2032, an Accounting Period shall be deemed to commence on the date which would otherwise be the last Accounting Date prior to March 2032 and end on the third Sunday in March 2032 and the procedures and calculations for such last Accounting Period shall be made as if the Annual Determination Date were the Distribution Determination Date falling prior to the July Distribution Payment Date in 2032. Such other changes to timing of events will be made as are necessary.

The Annual Recourse Cashflow Amount is the aggregate for the Relevant Accounting Period of the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount.

Each of the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount is determined by taking the amount projected at the preceding Annual Determination Date to be such amount for the Relevant Accounting Period (referred to as the “**Projected Insurance Surplus**” or “**Projected Savings Surplus**”, as applicable, each as described below) and making certain adjustments to it.

### **Methodology for determining the Annual Recourse Insurance Cashflow Amount in respect of an Accounting Period**

The “**Annual Recourse Insurance Cashflow Amount**” shall be determined on each Annual Determination Date as follows and in the following order:

- (i) The projected insurance surplus for the Relevant Accounting Period (referred to in respect of such period as the “**Projected Insurance Surplus**”) made as at the preceding Annual Determination Date (or, in the case of the first Accounting Period, as set out for that period in the Base Case) is taken. See below under “*Introduction to the calculation of the Projected VIF*” and “*Methodology for calculating the Projected Insurance VIF*” for a summary of how the Projected Insurance Surplus for the Relevant Accounting Period is determined.
- (ii) The Projected Insurance Surplus is adjusted by the Aggregate Annual Insurance Adjustment Amount (which may be positive or negative) determined by the VIF Calculation Agent in accordance with the Procedures as at the current Annual Determination Date.
- (iii) The amount determined pursuant to (ii) is then adjusted by the Aggregate Insurance Business Assumption Adjustment Amount (see “*Certain business assumptions made in connection with the transaction and the adjustments to the Annual Recourse Cashflow Amounts and Projected VIF required if such assumptions prove to be incorrect*” below).
- (iv) Any balance on the Negative Insurance Surplus Tracking Account is deducted from the amount determined pursuant to (iii) (see paragraph 25 of “*Terms and Conditions of the Insurance-linked Loan and the Savings-linked Limited Partnership Interest – Operation of the Capital Accounts, Distributions of Profit and Payments in respect of the IL Loan*” below).
- (v) If any Non-Sale Acceleration Event occurs, amounts representing the Projected Insurance VIF will be included in the Annual Recourse Insurance Cashflow Amount and amounts representing the Projected Savings VIF will be included in the Annual Recourse Savings Cashflow Amount. If any Sale Acceleration Event occurs, the Insurance VIF Sale Proceeds and the Savings VIF Proceeds will be treated as Annual Recourse Insurance Cashflow Amounts or Annual Recourse Savings Cashflow Amounts, as applicable. (See “*Transaction Summary – The Limited Partnership Interest and the Limited Partner Loan – Acceleration of IL Loan and Distributions under the SLLP*” and “*Terms and Conditions of the Insurance-linked Loan and the Savings-linked Limited Partnership Interest – Operation of the Capital Accounts, Distributions of Profit and Payments in respect of the IL Loan*”, in particular the paragraphs headed “*Non-Sale Acceleration Event*”, “*-Dissolution Event*” and “*-Sale Acceleration Event*” and “*Partial Sale Event*”.)

The “**Projected Insurance Surplus**” is the surplus projected (in accordance with the Procedures and as part of the determination of the Projected VIF (see below under “*Introduction to calculation of the Projected VIF*”)) as at the prior Annual Determination Date to emerge at the end of the Relevant Accounting Period on the Insurance Block in respect of such Relevant Accounting Period, save that for the Accounting Period ending in March 2008, the Projected Insurance Surplus is the amount determined as such for the Base Case, which amount is included on the Disc.

As part of the projection of the Projected Insurance VIF which the VIF Calculation Agent calculates on the Annual Determination Date for an Accounting Period, the VIF Calculation Agent is required to project certain components of it (the “**Projected Insurance VIF Relevant Components**”) for each Surplus Adjustment Determination Period falling in that Accounting Period. A “**Surplus Adjustment Determination Period**” is the period from and including one Surplus Adjustment Determination Date to and excluding the next Surplus Adjustment Determination Date. A “**Surplus Adjustment Determination Date**” is, in respect of an Accounting Period, (i) the third Sunday in March (or such date in March as of which BoI Life prepares its calculations), 30 June, the third Sunday in September

(or such date in September as of which BoI Life prepares its calculations) and 31 December and (ii) if the unit price of the Pension Managed Fund of BoI Life has either increased or decreased by more than 7.5 per cent. in the period from (and including) what would otherwise be one Surplus Adjustment Determination Date to and excluding what would otherwise be the next Surplus Adjustment Determination Date, the last day of the first and second calendar month preceding the second Surplus Adjustment Determination Date shall also be deemed to be Surplus Adjustment Determination Dates solely for the purpose of determining adjustments to the projected fund management charges.

On the Annual Determination Date following the end of a Relevant Accounting Period, the Projected Insurance VIF Relevant Components are adjusted as described below and the aggregate of all the adjustments for that period is the Aggregate Annual Insurance Adjustment Amount. The Projected Insurance VIF Relevant Component for a Surplus Adjustment Determination Period is compared with the adjusted amount determined as described below for such period. The adjusted amounts will be positive or negative adjustments to Projected Insurance Surplus consistent with replacing projected results with actual results. The Projected Insurance VIF Relevant Component for a Surplus Adjustment Determination Period is compared with the adjusted amount determined as described below for such period and the differences are used to determine the "Aggregate Annual Insurance Adjustment Amount".

The following is a summary of the Projected Insurance VIF Relevant Components and adjustments required in respect of each Accounting Period and is determined by reference to the Insurance Block and, where applicable, only to certain policy products within the Insurance Block:

Component of Surplus	Description of determination of the adjusted amount (which is then compared with the projected amount)
Fund management revenue (net of investment expenses)	The projected fund management charges are multiplied by the average of the opening and closing unit fund liabilities of the Insurance Block as at the beginning and end of the relevant Surplus Adjustment Determination Period and divided by the average of the projected opening and closing unit fund liabilities of the Insurance Block as at the beginning and end of the relevant Surplus Adjustment Determination Period as projected by the VIF Calculation Agent in respect of such Insurance Block and such Surplus Adjustment Determination Period.
Premium charges	The projected premium charges are multiplied by the average of the annual premiums in-force in respect of the product groups to which such adjustment is applicable as at the beginning and end of the relevant Surplus Adjustment Determination Period and divided by the average of the projected annual premiums in-force in respect of the product groups to which such adjustment is applicable as at the beginning and end of the relevant Surplus Adjustment Determination Period as projected by the VIF Calculation Agent in respect of the Insurance Block. Similar calculations will apply for single premium business as appropriate.
Policy fees	The projected policy fees are multiplied by the average number of policies in respect of the product groups to which such adjustment is applicable in the Insurance Block in-force as at the beginning and end of such relevant Surplus Adjustment Determination Period divided by the average of the projected number of policies in-force in respect of the product groups to which such adjustment is applicable in the Insurance Block as at the beginning and end of

	such relevant Surplus Adjustment Determination Period as projected by the VIF Calculation Agent in respect of such Insurance Block.
Surrender charges	The projected surrender charges are multiplied by the actual number of lapses in respect of the product groups to which such adjustment is applicable in the Insurance Block in-force as at the beginning of such relevant Surplus Adjustment Determination Period divided by the number of lapses projected in respect of the product groups to which such adjustment is applicable in the Insurance Block projected in respect of such relevant Surplus Adjustment Determination Period as projected by the VIF Calculation Agent in respect of such Insurance Block.
Initial commission	The projected initial commission on regular premium policies is multiplied by the average of the annual premiums in-force in respect of the product groups to which such adjustment is applicable as at the beginning and end of the relevant Surplus Adjustment Determination Period divided by the average of the projected annual premiums in-force in respect of the product groups to which such adjustment is applicable as at the beginning and end of the relevant Surplus Adjustment Determination Period as projected by the VIF Calculation Agent in respect of the Insurance Block. Similar calculations will apply for single premium business as appropriate.
Renewal commission	The projected renewal commission on single premium policies is multiplied by the average of the opening and closing unit fund liabilities of the product groups to which such adjustment is applicable in the Insurance Block as at the beginning and end of the relevant Surplus Adjustment Determination Period divided by the average of the projected opening and closing unit fund liabilities of the product groups to which such adjustment is applicable in the Insurance Block as at the beginning and end of the relevant Surplus Adjustment Determination Period as projected by the VIF Calculation Agent in respect of the relevant Block. The projected renewal commission on regular premium policies is multiplied by the average of the annual premiums in-force in respect of the product groups to which such adjustment is applicable as at the beginning and end of the relevant Surplus Adjustment Determination Period divided by the average of the projected annual premiums projected to be in-force in respect of the product groups to which such adjustment is applicable as at the beginning and end of the relevant Surplus Adjustment Determination Period as projected by the VIF Calculation Agent in respect of the Insurance Block.
Loyalty bonus	The projected loyalty bonuses are multiplied by the average of the opening and closing unit fund liabilities in respect of the product groups to which such adjustment is applicable in the Insurance Block as at the beginning and end of the relevant Surplus Adjustment Determination Period and divided by the average of the projected opening and closing unit fund liabilities of the product groups to which such adjustment is applicable in the Insurance Block as at the beginning and end of the relevant

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Surplus Adjustment Determination Period as projected by the VIF Calculation Agent in respect of the Insurance Block.

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Risk benefit charges and claims

This adjusted amount has three separate calculations:

First, the projected risk benefit charges are multiplied by the average of the annual premiums in-force in respect of the product groups to which such adjustment is applicable in the Insurance Block as at the beginning and end of the relevant Surplus Adjustment Determination Period and divided by the average of the annual premiums in-force in respect of the product groups to which such adjustment is applicable as at the beginning and end of the relevant Surplus Adjustment Determination Period as projected by the VIF Calculation Agent in respect of the Insurance Block.

Secondly, the difference between projected risk claims and actual risk claims is calculated based on a comparison of actual risk benefit costs and expected risk benefit costs, adjusted for movement in the incurred-but-not-reported ("IBNR") reserve during the quarter.

This adjustment only applies to specific product groups in the Insurance Block in-force that are determined to contain those products where risk benefit costs arise and is applied separately for life and pension products.

The expected risk benefit costs calculated by the embedded value model for each Surplus Adjustment Determination Period will be totalled for each of the product groups in the Insurance Block in-force.

The actual risk benefit claims are recorded in the calculations carried out by BoI Life relating to the movement in embedded value, and are equal to the total of the unit-linked risk benefit claims in respect of policies in the specific product groups to which this adjustment applies in the Insurance Block in-force. They will be aggregated for each of the product groups in the Insurance Block in-force.

The actual risk benefit cost will include the movement in the IBNR reserve during the relevant Surplus Adjustment Determination Period, which is equal to the increase or decrease in the IBNR reserve as recorded on the draft Form 26 of the returns to the Financial Regulator at the Surplus Adjustment Determination Dates at the beginning and end of the relevant Surplus Adjustment Determination Period.

Thirdly, the net reinsurance cashflows are calculated based on the difference between risk premiums paid to reinsurers and claim recoveries received from reinsurers.

This adjustment only applies to specific product groups in the Insurance Block in-force which are determined to contain those products where reinsurance premiums are payable.

The risk premiums paid to reinsurers are recorded in the calculations carried out by BoI Life relating to the movement in embedded value, and are equal to the total of the reinsurance premium in relation to the specific product groups to which this adjustment applies in the Insurance Block in-force.

The claim recoveries received from reinsurers are recorded in the calculations carried out by BoI Life relating to the movement in embedded value, and are equal to the total of the claim recovery entries in relation to the specific product groups to which this adjustment applies in the Insurance Block in-force.

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Release of Non-Unit Reserves	This will be equal to the actual change in non-unit reserves, plus interest earned on the non-unit reserves over the Surplus Adjustment Determination Period.
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The interest earned on the non-unit reserves will be based on the yield of the Irish benchmark gilt with an appropriate maturity date. The non-unit reserves included are the per policy non-unit reserves excluding any unearned risk reserve or unearned premium reserve component.

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Renewal Expenses	The projected per policy expenses are multiplied by the average number of policies to which such adjustment applies in the Insurance Block in-force as at the beginning and end of such relevant Surplus Adjustment Determination Period and divided by the projected average number of policies to which such adjustment applies in the Insurance Block in-force as at the beginning and end of such relevant Surplus Adjustment Determination Period as projected by the VIF Calculation Agent in respect of the Insurance Block.
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Payroll Deduction Schemes ("PDS Policies")	The surplus from PDS Policies is calculated separately from other policies. The projected surplus from PDS Policies (the "Projected PDS Surplus") is multiplied by the average of the opening and closing unit fund liabilities of the PDS Policies in the Insurance Block as at the beginning and end of the relevant Surplus Adjustment Determination Period and divided by the average of the opening and closing unit fund liabilities of the PDS Policies in the Insurance Block as at the beginning and end of the relevant Surplus Adjustment Determination Period as projected by the VIF Calculation Agent in respect of the Insurance Block.
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I-E Tax	Where the projection at the start of the accounting period projects investment income to exceed expense costs and in the event that the investment income attributable within the quarter on the assets supporting the I-E tax liabilities deemed to fall within the scope of this surplus calculation is insufficient to offset the tax rebate
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associated with the expense and commission costs relating to the same block of policies, then it will be necessary to adjust the surplus calculation.

In such a case, an adjustment will be applied equal to the excess of the quarterly renewal expenses and commission associated with this group of policies over the investment income attributable to this group of policies earned during the period, multiplied by the I-E tax rate applicable at the time. The renewal expenses and commission will be calculated as set out in the "Renewal Expenses", "Initial Commission" and "Renewal Commission" surplus components described above, but will only relate to those policies where tax is applicable on an I-E basis.

The actual investment income earned during the period will be based on the investment accounting records of BoI Life relating only to those unit-linked investment funds of this group of policies where tax is applicable on an I-E basis. In the event of this adjustment having a non-zero value, the unrelieved expenses will be added to the total renewal expenses relating to the I-E policies for the purposes of this component as calculated as at the next Surplus Adjustment Determination Date. Where the projection at the start of the accounting period projects expense costs to exceed investment income, the converse will apply.

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Modelled Profits (NC1) Tax	A charge will be calculated equal to 12.5 per cent. (or the tax rate applicable for the period) multiplied by the total of all other surplus adjustments.
Taxation changes	Changes in the nature of taxation calculations, or in the rate of tax applied, will be allowed for in a way such that the adjustment to surplus in respect of tax will be consistent with the adjustments to surplus described above.
Regulatory Changes	The calculation will be adjusted to allow for the input of any future regulatory changes where the impact is not adequately captured in the above. Such adjustments will be carried out in consultation with the Relevant Person.

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#### **Methodology for determining the Annual Recourse Savings Cashflow Amount in respect of an Accounting Period**

The methodology for determining the Annual Recourse Savings Cashflow Amounts is the same as for the Annual Recourse Insurance Cashflow Amounts save that:

- (i) it will be applied to the relevant policies in the Savings Block and the terms "**Projected Savings Surplus**" (together with the Projected Insurance Surplus, the "**Projected Surplus**"), "**Projected Savings Relevant VIF Components**" and "**Aggregate Annual Savings Adjustment Amount**" defined accordingly; and
- (ii) there is no equivalent of the Negative Insurance Surplus Tracking Account as the purpose of the Negative Insurance Surplus Tracking Account is to record the absolute value of any negative Annual Recourse Insurance Cashflow Amount, whereas any negative Annual



Recourse Savings Cashflow Amount is debited from the Savings Cashflow Tracking Account (so no separate account is included).

### **Principal factors contributing to the emergence of the Annual Recourse Cashflow Amount**

The following summarises the principal factors that contribute to the emergence of surplus from the Dynamic Defined Block.

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

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 associated with the policy.

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

Standard charges are of the following types:

- Annual management charges (“AMC”): 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. There is often flexibility for the AMC to be increased, although this is rarely carried out.
- Policy fees: these are fees for administering the policy and are generally fixed or increase annually (generally in line with the retail prices index). They are levied either as a reduction in the policy allocation of units or directly from premiums received.
- 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) and waiver of premium and permanent health insurance (sickness) benefits. The charges are age and gender related and may vary because of other factors, such as whether the insured is a smoker.
- Premium Charge: this is a charge on acquiring new units.
- Percentage of the premiums allocated to the unit fund: fees may be levied by reducing the proportion of premiums allocated to units to below 100 per cent., or offset by allocating more than 100 per cent. of premiums.
- Tax deductions: these apply only to certain life business policies, as opposed to pensions business, and are intended broadly to match the tax payable by the life company on taxable investment income and gains allocated to policyholders.

As the initial costs of setting up a policy are usually much higher than the ongoing administration expenses, various charging structures are applied on regular premium contracts to help minimise the capital strain on a company writing unit-linked business.

*Claims:* In the event of a policyholder or the insured surrendering a policy, the terms of the contract will usually specify that a proportion of the unit fund will be paid, often with a deduction made in the earlier years of the contract for BoI Life to recoup some of the initial costs of setting up the policy. On maturity or death, the unit fund would be expected to be paid (together with any additional risk benefit in the case of a death or, in a minority of cases, guaranteed benefit in the case of death or maturity).

*Risks:* The main risk to surplus is that the future charges recovered from the policies are less than anticipated. While most of the investment risk is borne by the policyholder, there is an important secondary risk to BoI Life since management charges are related to the value of the units. The value of the business may also be reduced by an increase in the lapse rates since future margins will no longer arise, although surrender penalties may often recoup at least part of this. Adverse mortality or morbidity experience will increase the level of payout on the risk elements of the policies.

*Reserving:* The statutory reserves for these policies have two separate components:

- unit reserve - calculated as the number of units multiplied by current unit price; and
- non-unit reserve.

The non-unit reserve is calculated using a cash flow projection, on prudent assumptions, of the charges and expenses that BoI Life expects for the policy, i.e., the cashflows that are not included in the unit fund. The reserve is set at a level which aims to eliminate any future negative cash flows in the non-unit account. It should be noted that the unit price and unit reserve should move in line with the value of the assets held by the unit fund. However, any requirement for changes to the non-unit reserve will directly affect the Annual Recourse Cashflow Amount arising on the Dynamic Defined Block.

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 generally no contractual restriction on the extent of the increase; however, there are constraints arising from expectations of policyholders, from applicable legislation, regulatory principles and codes of conduct (such as the Irish Consumer Protection Code), from the principles of financial management adopted by BoI Life, as well as commercial and consumer related considerations.

#### **Summary of Reinsurance Arrangements on the Dynamic Defined Block**

There is a reinsurance element on the Dynamic Defined Block, with BoI Life currently retaining the first €300,000 of mortality risk on each new policy. BoI Life retains the first €100,000 of risk on each new Critical Illness policy.

#### **Asset Investment**

The majority of the assets in the unit-linked funds in which the unit-linked policies in the Dynamic Defined Block are invested comprise the Managed Funds (being the New Ireland Pensions Managed Fund, the Personal Pensions Managed Unit Fund, the Gross Balanced Managed Fund, the Life Managed Fund, the Mortgage Managed Fund, the Lifetime Exempt Fund, the Gross Investment for Growth Exempt Fund and the Gross Managed Growth Fund (collectively, the “**Managed Funds**”)). The current investment guidelines for the Managed Funds are outlined below.

#### *Investment policy*

The Managed Funds are actively managed with a medium risk profile. They aim to provide above average growth over the medium term. The Managed Funds invest in a broad range of high quality stocks and shares, government bonds and property (generally investing through BoI Life’s pensions gilt, cash, property, Irish equity, international and other funds).

### *Investment Objectives*

The current investment objectives of the Managed Funds are:

- to achieve superior real rates of return in the medium to long term (three to ten years) from a well diversified portfolio, reducing the risk inherent in concentration in any one category of investment; and
- to be consistently ranked in the top 25 per cent. of peer group managed funds, over periods of three to ten years.

### *Guidelines for Asset Classes*

The following guidelines on asset mix relates to the Managed Funds.

#### **Managed Fund's Investment Guidelines for Asset Classes**

<b>Asset Type</b>	<b>Euro</b>	<b>Non-Euro</b>	<b>Total</b>
<b>Fixed Interest</b>	10-35%	0-10%	10-35%
<b>Cash</b>	0-15%	0-5%	0-20%
<b>Property</b>	None	None	0-10%
<b>Equities</b>	25-50%	25-50%	60-85%
<b>Equities / Property</b>	None	None	60-90%

### *Principal Risks to the Emergence of the Annual Recourse Cashflow Amount*

The amount and the timing of the emergence of Annual Recourse Cashflow Amounts will depend on the actual experience of the Dynamic Defined Block and expected future experience that affects reserving parameters. The main factors that will affect the Annual Recourse Cashflow Amount in any period are the actual investment returns achieved, actual mortality and morbidity, actual lapse rates, actual expenses (subject to capped annual increases, as described in “Expenses” below) and taxation. In addition, should future expectations relating to these factors change (either through a factual change, such as a change in taxation rates, or a prudent assessment of future experience), this is likely to result in a change in reserving levels which may affect the Annual Recourse Cashflow Amount.

This section describes certain of these and other risks that may have an impact on the Annual Recourse Cashflow Amount. Other risks are also referred to elsewhere in this Prospectus, including, in particular, the previous section headed “Principal factors contributing to the emergence of the Annual Recourse Cashflow Amount”.

### *Investment Returns on Unit-linked business*

The annual management charge for unit-linked policies is calculated on a daily basis as a percentage of the value of units allocated to policies; 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. The level of investment returns on the unit-linked funds is a risk borne primarily by the policyholders invested in such funds. The asset mix of the funds in which the unit-linked policies comprising the Dynamic Defined Block are invested is reflected in the Base Case Assumptions relating to asset mix (see “The Base Case - Base Case Assumptions used in projecting Dynamic Defined Block surplus amounts” below).

### *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 over time the expected assets allocated to policies and accordingly the annual management charge on the Dynamic Defined Block. For protection policies, the effect may give rise to a short-term increase in the Annual Recourse Cashflow Amount arising from a release of expense and mortality/morbidity reserves but over the longer term a reduction in Annual Recourse Cashflow Amount is to be expected.

Persistency rates depend to some extent on economic conditions and market conditions but might also be affected significantly by regulatory changes, or events which might be specific to BoI Life.

### *Mortality and Morbidity risks*

Mortality risks and morbidity risks affect the emergence of the Annual Recourse Cashflow Amount in different ways depending on the type of policy. In relation to the risk benefit (non-investment) component of unit-linked products (such as life insurance, critical illness and disability), the greatest risk is that mortality and/or morbidity levels are higher than assumed at the last valuation or 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 non-unit reserves prove to be insufficient (with the result that additional reserves need to be set aside, thereby reducing the Annual Recourse Cashflow Amount).

Exposure to volatility in mortality and morbidity claims is greatly reduced through the large number of contracts and the narrow spread of contract size. Large risks are reinsured with external companies to reduce fluctuations in experience resulting from one large claim or a series of large claims.

Morbidity and mortality charges may be reviewed, where permitted under the terms of the policy and applicable law and regulation, having regard to BoI Life's and industry-wide experience or other relevant factors.

### *Strengthening and release of non-unit reserves*

In accordance with law and regulations applicable to BoI Life, BoI 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 the Annual Recourse Cashflow Amount 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 any strengthening of reserves represents an actual reduction in surplus rather than a deferral of surplus.

### *Expenses*

The Annual Recourse Cashflow Amount is affected by the expenses of administering the policies and other expenses of the Dynamic Defined Block. To mitigate the risk that expense inflation may be higher than projected in the Base Case (when calculating the Annual Recourse Cashflow Amount), the amount by which per policy renewal expenses are increased is limited to a maximum of five per cent. in any twelve-month period for the purposes of calculating the Annual Recourse Cashflow Amount.

### *Taxation*

The Base Case provides for current rates of tax on policyholder income and investment gains, where applicable. Taxed policies contain policy provisions that would allow BoI Life to alter the policy terms to reflect changes in the policyholder rate of tax. The Base Case also provides for the current rate of corporation tax. Changes in the rate of tax or method of calculating the amounts to which the tax rate is applied will affect the Annual Recourse Cashflow Amount (see above under "*Methodology for determining the Annual Recourse Cashflow Amount in respect of an Account Period*" and in particular the items headed "*I-E Tax*", "*Modelled Profits (NC1) Tax*" and "*Taxation Changes*" under the column headed "*Component of Surplus*" in the table in that section).

### *Reinsurance counterparty credit risks*

The use of reinsurance in the life assurance business exposes the company to a risk that the reinsurer is unable to meet claims. BoI Life may enter into reinsurance for any purpose. If it enters into contracts of reinsurance with the principal purpose of suppressing or delaying the emergence of the Annual Recourse Cashflow Amount or the amount of Projected VIF, a Business Assumption may be invalid (resulting in an adjustment to such amounts to compensate for such consequence).

### **Introduction to the calculation of the Projected VIF**

The "**Projected VIF**" will be determined by the VIF Calculation Agent on the VIF Determination Date as the aggregate of the Projected Insurance VIF and the Projected Savings VIF.

### **Methodology for calculating the Projected Insurance VIF**

The "**Projected Insurance VIF**" is determined no later than the Annual Determination Date in each year for the period from the Accounting Date immediately preceding such Annual Determination Date to the Maturity Date (and accordingly surplus projected to emerge after March 2032 is not included) by the VIF Calculation Agent by applying the Model to the Actual Insurance Data and the Relevant Insurance Assumptions in respect of the Insurance Block as at such Accounting Date (or, in the case of the Accounting Period beginning on 30 June 2007, is the amount determined as such in the Base Case, which amount is recorded on the Disc). In discounting the future cash flows projected for the purpose of making this determination and in calculating the Projected Savings VIF, the discount rate will be the rate determined as the Projected Spread Rate.

The Projected Insurance VIF (during the Amortisation Period) is increased by the Projected Insurance VIF Loss in the manner described below. Certain Business Assumptions are made for the purposes of the transaction (see "*Certain business assumptions made in connection with the transaction and the adjustments to the Annual Recourse Cashflow Amounts and Projected VIF required if such assumptions prove to be incorrect*"). If a Business Assumption proves to be invalid, it is likely that the Projected Insurance VIF would be reduced as a result if Projected Insurance VIF were not otherwise deemed to be increased by the Projected Insurance VIF Loss. Subject to certain materiality requirements and thresholds and as and when the relevant Accounting Period in respect of which the loss arises occurs, the Projected Insurance VIF is increased by the Projected Insurance VIF Loss (discounted at the Projected Spread Rate), determined as described below under "*Invalidity Determinations*".

The Model, as at the date of this Prospectus (the "**Original Model**"), is a computer program contained on the Disc. The Original Model may be amended or upgraded (subject to certain consequences arising as described in the Business Assumption headed "*Model/Base Case*" below) by the VIF Calculation Agent from time to time; the Relevant Person will have certain consultation rights under the Calculation Agreement in connection with any amendment or change to the Model. The Original Model, as amended or upgraded from time to time in accordance with the Limited Partnership Agreement, is referred to as the "**Model**". The Model will be used for the purpose of calculating (i)

emerging surplus (as such term is generally understood in the life assurance industry) (as determined for the purposes of this transaction, the Annual Recourse Insurance Cashflow Amount and Annual Recourse Savings Cashflow Amount) in the manner described in the Limited Partnership Agreement, (ii) the VIF (as such term is generally understood in the life assurance industry) in respect of the Dynamic Defined Block (and of the Insurance Block and Savings Block, separately) (as determined for the purposes of this transaction, the Projected VIF, the Projected Insurance and the Projected Savings VIF) and (iii) projected surplus expected to emerge in a particular Accounting Period (as determined for the purposes of this transaction, Projected Surplus, Projected Insurance Surplus, Projected Savings Surplus, the Projected Insurance VIF Relevant Components and the Projected Savings VIF Relevant Components in respect thereof), in each case based on (a) the Relevant Assumptions, (b) the Actual Data and (c) the adjustments in calculating emerging surplus required to determine the Aggregate Annual Adjustment Amount, the Aggregate Annual Insurance Adjustment Amount and the Aggregate Annual Savings Adjustment Amount.

To calculate such emerging surplus and VIF, the Model applies a series of mathematical processes to the Actual Data and Relevant Assumptions input into the Model to determine each of the Projected Surplus, Projected Insurance Surplus, Projected Savings Surplus, the Projected Insurance VIF Relevant Components, the Projected Savings VIF Relevant Components, Projected VIF, Projected Insurance VIF, Projected Savings VIF and calculations required in connection therewith in respect of the Insurance Block and the Savings Block.

The “**Actual Insurance Data**” means, in relation to the first Accounting Period, the actual information about Insurance Contracts comprised in the Dynamic Defined Block input directly into the Model for the purposes of calculating the Base Case and, in relation to each subsequent Accounting Period, the corresponding actual information as at the beginning of such Accounting Period about Insurance Contracts comprised in the Dynamic Defined Block which enables VIF with respect to such policies to be determined in the manner set out in the Limited Partnership Agreement, as taken from the relevant Policy Administration System.

The “**Relevant Insurance Assumptions**” are, in the case of the projection of VIF made as at the Base Case Date in respect of the Insurance Block, the Base Case Assumptions applied to the Insurance Block and, in the case of the projection of VIF made as at each subsequent Annual Determination Date, the Relevant Insurance Assumptions as at the beginning of the immediately preceding Accounting Period adjusted by the VIF Calculation Agent in accordance with the Procedures (i) to take account of anticipated experience in respect of such matters, taking account of the historic experience of BoI Life and of the life assurance industry with respect to comparable business, (ii) in a consistent manner across the Relevant Insurance Assumptions and for the different product groups to the extent relevant and (iii) in the case of projected returns on assets, to take account of the expected long term performance of the projected assets comprised in the relevant fund, anticipated long-term inflation rates, anticipated asset mixes and current long-term yields on the projected asset class.

“**Policy Administration System**” means the computer and other systems on which BoI Life (or its agents) maintains records relating to its business including the policies in the Dynamic Defined Block.

A copy of the Model and of the Relevant Assumptions will be provided to Ambac and the Relevant Person not less than once a year and promptly following its being changed in any material respect.

#### **Methodology for calculating the Projected Savings VIF**

The process for determining “**Projected Savings VIF**” is the same process as for calculating Projected Insurance VIF save that the data (the “**Actual Savings Data**”; Actual Savings Data and Actual Insurance Data being each “**Actual Data**”) and assumptions (the “**Relevant Savings Assumptions**”; Relevant Savings Assumptions and Relevant Insurance Assumptions being each “**Relevant Assumptions**”) are those relating to the Savings Block and the reference to Projected Insurance VIF Loss is replaced by a reference to the Projected Savings VIF Loss.

### **Certain Risks in ascertaining Projected VIF**

Projected VIF is determined in order to ascertain whether repayments of principal on the IL Loan are to be made and whether any SLLPI Loan Reduction Profit Amount is to be made on the SLLPI and whether the transaction will continue to remain in the Pre-Amortisation Period (if it has not already ended) and if so whether Additional Policies are required to be added to enable the transaction to continue to remain in the Pre-Amortisation Period (see *"Inclusion of Additional Policies in the Dynamic Defined Block"* below).

The principal risk to whether Projected VIF emerges as surplus over time is that experience proves to be adverse to that assumed in the Relevant Assumptions (being the Relevant Insurance Assumptions or the Relevant Savings Assumptions, as applicable). In addition, a change of assumption may result in Projected VIF being higher (or lower) than would have been the case if no such change had been made. While this will not affect whether surplus emerges ultimately, it may affect whether the transaction should have remained in the Pre-Amortisation Period. The VIF Calculation Agent is constrained from making changes to the assumptions made for the purposes of the Base Case as described under *"The Procedures for determining the Annual Recourse Cashflow Amount and Projected VIF"*, and the definition of "Permitted Assumption Change" in that section.

The assumptions made for the purpose of projecting the Base Case (which is the Projected VIF as at 30 June 2007) are set out under *"Base Case Assumptions"*.

Each year the VIF Calculation Agent is required to ascertain the Projected VIF as described above. The VIF Calculation Agent is required to determine the assumptions to be applied in respect of the projection being made (separate projections and therefore separate assumptions, if necessary, will be applied to the Insurance Block and the Savings Block), subject to the constraints referred to above.

### **Certain business assumptions made in connection with the transaction and the adjustments to the Annual Recourse Cashflow Amounts and Projected VIF required if such assumptions prove to be incorrect**

The following sets out certain assumptions regarding the Dynamic Defined Block, BoI Life and the operation of BoI Life's business (the **"Business Assumptions"**). If any failure or failures (collectively) of the Business Assumptions to be valid (excluding the Base Case Assumption) have a Material Adverse Effect, certain adjustments described below may be made. References to the occurrence of an Invalidity and analogous expressions will be construed accordingly. See *"Invalidity Determinations"* below.

**"Material Adverse Effect"** means:

- (a) in respect of Invalidities occurring in an Accounting Period ending during the Pre-Amortisation Period, the aggregate amount of the reduction in the Annual Recourse Cashflow Amount and the Projected VIF arising from such Invalidities in such Accounting Period is equal to or greater than 2.5 per cent. of the Projected VIF at the beginning of such Accounting Period, save that no Material Adverse Effect will arise where such Invalidities would not have caused full or partial amortisation to occur and no prior Potential Invalidity would have had the same effect; or
- (b) in respect of Invalidities occurring in an Accounting Period ending during the Amortisation Period, the aggregate amount of the reduction in the Annual Recourse Cashflow Amounts and the Projected VIF arising from such Invalidities following the commencement of the Amortisation Period is equal to or greater than 2.5 per cent. of the Projected VIF at the commencement of the Amortisation Period. In making such calculations, Invalidity Amounts included in the Projected VIF shall be deducted from it as and when such amounts subsequently fall to be taken into account in the Annual Recourse Cashflow Amounts.

References in the Business Assumptions below to an “adverse effect” are to an adverse effect on the calculations of Annual Recourse Cashflow Amounts, Projected VIF and the calculations required to be made to make such calculations.

If an Invalidity of any Business Assumption would also be an Invalidity with respect to any other Business Assumption or affect the calculations of the effects of the Invalidity of any other Business Assumption, calculations will be made which ensure that the effect is taken into account only once.

***Past Assumptions (Business Assumptions which are Presumed Valid as at the Closing Date)***

***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 BoI Life, 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 an adverse effect.

“**Policy Originators**” means BoI Life and any person from which it acquired Policies comprised in the Dynamic Defined Block.

“**Prudent Insurer**” means an insurer which conducts its business (i) in good faith and with the skill, diligence and expertise that experienced and qualified personnel performing such duties would employ in like circumstances and in any case with no less skill, diligence and expertise as it applies to servicing its business other than the business at any time included in the Dynamic Defined Block; (ii) taking into account reputational and other issues in respect of itself and the corporate group of which it is a member; (iii) in a manner that has regard to the interests of its shareholders in the embedded value of the business (on the assumption that this transaction had not occurred) and (iv) in conformity in all material respects with all applicable laws and all applicable regulations, rules and guidance of any governmental or regulatory authority and with its obligations under and its other responsibilities in relation to any policy or other contract to which it is a party.

“**Policies**” means policies comprised in the Dynamic Defined Block.

***Compliance with Laws/Regulations***

1.2 In the last 5 years, none 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, by-law, rule, order, delegated legislation or any official request of any governmental or regulatory authority or regulator, whether local, regional, national or supranational (including rules and regulations relating to the conduct of business of any regulatory body with whose rules and regulations a Policy Originator was required to comply), in each case, as in force from time to time and interpreted at the relevant time (“**Law**”) which, in each case, would, individually or together, have an adverse effect.

1.3 There are no legal, regulatory, arbitration, administration or ombudsman proceedings (including any which are pending or threatened to the knowledge of BoI Life, having made reasonable enquiries) involving BoI Life which, either individually or in aggregate, have an adverse effect.



1.4 BoI Life has, as at the Closing Date, and will maintain authorisations, approvals, licences, permissions and consents (“Licences”) under any applicable Laws in force (including without limiting the same, the European Communities (Life Assurance) Framework Regulations, 1994) and all shareholder and board approvals and authorisations required 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 the absence of which has an adverse effect.

1.5 BoI Life and each other Policy Originator had, at all relevant times, all Licences under all applicable Laws at the relevant time in force and all shareholder and board approvals and authorisations required to carry on business of the class in which each Policy falls or which it otherwise carried out, the absence of which has an adverse effect.

1.6 No outstanding complaints, warnings or notices have been received by BoI Life or (to the reasonable knowledge and belief of BoI Life, having made reasonable enquiries) is threatened against BoI Life which, either individually or in aggregate, has an adverse effect and there are no current, pending or (to the reasonable knowledge and belief of BoI Life, having made reasonable enquiries) threatened investigations or enforcement proceedings by the Financial Regulator for Ireland, the Tax Authorities, the Financial Services Ombudsman and the Pensions Board or any other regulator or tax authority into any of the activities of BoI Life which, either individually or in aggregate, has an adverse effect.

1.7 In the last 5 years, save for correspondence by way of consultation paper, generic letter or any other generic regulatory publication (including any actual or proposed regulatory change of a generic nature), no written communication has been received by BoI Life from the Financial Regulator for Ireland or any other regulator which:

- (a) alleges a failure, or possible failure, to comply with a Law or a Licence;
- (b) other than in the ordinary course or other than in the context of similar requests being made to the industry in general or particular sectors thereof, requests or requires any alteration in the way in which BoI Life carries out its business as at the Closing Date and described in this Prospectus;
- (c) other than in the ordinary course or other than in the context of similar requests being made to the industry in general or particular sectors thereof, requests or requires BoI Life to provide information or documents to a relevant regulator or submit to examination or interview in relation to BoI Life;
- (d) other than in the ordinary course or other than in the context of similar requests being made to the industry in general or particular sectors thereof, requests or requires BoI Life to provide a written report or submission or otherwise permit the Financial Regulator for Ireland to appoint a person to make any investigation into the business or affairs of BoI Life;
- (e) has led or may lead to an increase of BoI Life's liabilities or a reduction in the value of its assets or a change to the way it calculates its reserves as determined in the calculation of the Base Case;
- (f) other than in the ordinary course or other than in the context of similar requests being made to the industry in general or particular sectors thereof, requests or requires the provisions of additional capital for BoI Life which has not been complied with; or
- (g) other than in the ordinary course or other than in the context of similar requests being made to the industry in general or particular sectors thereof, raises any other matters, the failure to act in accordance with which,

either individually or in aggregate has an adverse effect.

#### *Compliance with Agreements*

1.8 BoI 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 or on any of its assets which breach or default has an adverse effect.

#### *Regulatory Returns*

1.9 In the last five years, all returns required under the Insurance Acts and Regulations (as such terms are defined in the Insurance Act, 1989) (the “Returns”) were prepared materially in accordance with all applicable Laws and conform materially to the practices recommended or required by the Society of Actuaries in Ireland at the time prepared.

#### *Accounts*

1.10 In the last five years, the audited accounts (the “BoI Life Accounts”) of BoI Life:

- (a) save to the extent disclosed in such BoI Life Accounts, were properly prepared in accordance with the provisions of the Companies Acts, 1963 to 2006 insofar as applicable to insurance companies and also materially in accordance with all other accounting practices applicable to insurance companies including the European Communities (Insurance Undertakings: Accounts) Regulations, 1996 (as amended) and any applicable rule, regulation or guidance of any governmental or regulatory authority; and
- (b) save to the extent disclosed in such BoI Life Accounts, were prepared using accounting policies which were in each case substantially in accordance with good industry practice for the life assurance industry in Ireland and the United Kingdom,

to the extent that any failure of (a) or (b) to be true would not, either individually or in aggregate, have an adverse effect.

#### *No Material Adverse Change*

1.11 Save as disclosed in the section entitled “*Bank of Ireland Life*” or elsewhere in the Prospectus, since (i) 31 December 2006, there has been no material adverse change in the financial position, trading position or prospects of BoI Life and (ii) 30 June 2007, there has been no material adverse change in the financial position of the Dynamic Defined Block based on an analysis of the Projected VIF but using a discount rate of 8% and taking the following factors into account (a) reductions in value as a result of movements in investment markets since the Base Case Date, (b) the amounts of surplus (which would form part of the Annual Recourse Cashflow Amount) which have arisen on the Dynamic Defined Block since the Base Case Date; (c) the unwind of the discount rate on the Dynamic Defined Block since the Base Case Date, and d) assuming that new business written since 30 June 2007 which is eligible to be included in the Dynamic Defined Block as Additional Policies is included in the Dynamic Defined Block as at 30 September 2007 in accordance with the procedures set out under “*Inclusion of Additional Policies in Dynamic Defined Block*”.

#### *Records*

1.12 To the extent that the following were invalid it would not, either individually or in aggregate, have an adverse effect:

BoI Life has 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 BoI Life to fulfil its contractual obligations under such Policies, to administer such Policies properly and to calculate the Annual Recourse Insurance Cashflow Amount, the Annual Recourse Savings Cashflow

Amount, the Annual Recourse Cashflow Amount, Projected Insurance VIF, the Projected Savings VIF and the Projected VIF appropriately.

*Policies*

1.13 To the extent that the following were invalid it would not, either individually or in aggregate, have an 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) and the Policy Originators have complied with their terms.

1.14 None of the Policies gives the holder:

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

in each case whether implicit or explicit, where such policy is not properly reserved for in accordance with Law and best actuarial practice, such that the absence of proper reserving would have, either individually or in aggregate, an adverse effect and each of the Policies in the Dynamic Defined Block on the Closing Date meets the Eligibility Criteria.

1.15 To the extent that the following were invalid it would not, either individually or in aggregate, have an adverse effect:

At all relevant times in respect of each of the unit-linked funds of the Policy Originators to which Policies are or have been linked, 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 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 Policies such published prices have, save for unit pricing errors which have been corrected and for which policyholders have been properly compensated, accurately reflected the true value of the applicable unit prices at that time.

*Reinsurance*

1.16 BoI Life is not a party to any reinsurance contract in respect of any policy included in the Dynamic Defined Block that will remain outstanding after the Closing Date other than those set out in the Returns prepared and filed in respect of the financial year of BoI Life ended on 31 December 2006.

*Non-Irish business*

1.17 To the extent that the following were invalid it would not, either individually or in aggregate, have an adverse effect:

BoI Life has not actively marketed Policies outside Ireland.

*Data*

1.18 The Actual Data (i) was complete and accurate as at 30 June 2007 and (ii) was an accurate extraction of the data relating to, and accurately reflected, the policies contained in the Dynamic Defined Block in force as at 30 June 2007.

*Model/Base Case*

- 1.19 (a)(i) The Original Model was designed for the purposes and was capable of calculating (A) emerging surplus (as such term is generally understood in the life assurance industry in Ireland and the United Kingdom) (i.e., the Annual Recourse Insurance Cashflow Amount and Annual Recourse Savings Cashflow Amount) in the manner described in the Limited Partnership Agreement, (B) the value-in-force (as such term is generally understood in the life assurance industry) in respect of the Dynamic Defined Block (and of the Insurance Block and Savings Block, separately) (i.e., the Projected VIF, the Projected Insurance VIF and the Projected Savings VIF) and (C) projecting surplus expected to emerge in a period (e.g., Projected Surplus, Projected Insurance Surplus, Projected Savings Surplus and the Projected VIF Relevant Components in respect thereof), in each case based on (xx) the Relevant Assumptions, (yy) the Actual Data and (zz) the adjustments in calculating emerging surplus required to determine the Aggregate Annual Adjustment Amount, the Aggregate Annual Insurance Adjustment Amount and the Aggregate Annual Savings Adjustment Amount.
- (ii) The Original Model used the Actual Data and Base Case Assumptions or, as the case may be, the relevant Stress Scenario Assumptions, in projecting, on the basis of Applicable Law, the Insurance VIF and Savings VIF in respect of the Insurance Contracts and the Savings Contracts to produce the Base Case or, as applicable, the Stress Scenarios.
- (b) The Actual Data (i) was complete and accurate as at 30 June 2007 (the “**Base Case Date**”), (ii) was an accurate extraction of the data relating to, and accurately reflected, the policies contained in the Dynamic Defined Block in force as at the Base Case Date, and (iii) was properly and accurately input into the Original Model.
- (c) The Base Case Assumptions were properly and accurately input into the Original Model.
- (d) (i) The Base Case Assumptions are recorded accurately on the Disc.
- (ii) BoI Life has disclosed all material information that would enable the Relevant Person to assess the appropriateness of the Base Case Assumptions for the purposes of this transaction and such information is correct and complete in all material respects.
- (iii) The Disc accurately includes the information set out in the definition of Disc.
- (e) The methodology for determining the Base Case Assumptions was reasonable, taking into account the margin between underlying experience and the assumptions used in the Model.
- (f) Whether or not there has been an Invalidity of the Base Case will be determined by the following steps:
- (i) each year, as part of the process for determining the Annual Recourse Cashflow Amount pursuant to the Calculation Agreement, BoI Life (and the Relevant Person, if applicable) will monitor, in accordance with paragraph (ii) below, the Annual Recourse Cashflow Amount which has emerged up to and including the most recent Accounting Date, with a view to assessing whether there has been an invalidity of any

of the assumptions in (a), (b), (c), (d) or (e) above (together, the “**Base Case Warranty**”) (determining both positive and negative effects);

- (ii) on each Annual Determination Date during the Pre-Amortisation Period and on each Annual Determination Date on which a new version of the Model is applied to determine Projected VIF and the Annual Recourse Cashflow Amount, the Base Case Warranty will be deemed to be repeated as of such date as though (A) “Original Model” were a reference to the version of the Model which applied on or for such Annual Determination Date, (B) “Base Case Date” were a reference to the end of the Relevant Accounting Period in respect of which determinations are made on such Annual Determination Date, (C) “Base Case Assumptions” were a reference to the Relevant Assumptions which applied on or for such Annual Determination Date and (D) “Disc” were a reference to the computer disc that will contain the revised Model, Relevant Assumptions and data setting out the reset Base Case;
- (iii) notwithstanding the repetition of the Base Case Warranty with the adjustments described in paragraph (ii), the Base Case Warranty as originally given, and each previous repetition thereof in accordance with paragraph (ii), shall remain binding and effective and capable, where it proves to be invalid as at the date made or repeated, of founding an Invalidity;
- (iv) each year, as part of the process for determining the Annual Recourse Cashflow Amount pursuant to the Calculation Agreement, BoI Life will review the output of the Model in order to establish whether the Model understated or overstated the surplus which arose on the Dynamic Defined Block, on the basis of the same data and assumptions and calculation methodology. A copy of the initial conclusions of the comparison will be provided to the Relevant Person;
- (v) if the Annual Recourse Cashflow Amount for an Accounting Period is materially less than the amount which would have been expected, using the same data and assumptions, then BoI Life will cooperate with the Relevant Person by providing such information as the Relevant Person may reasonably require to establish whether the Model complied with paragraphs (a)(i) above or whether there has been some invalidity of the Base Case Warranty (including a right to call for a full copy of the detailed comparison study together with the supporting calculations and information and access to the Original Model and the Model and all data and assumptions input into it by BoI Life and full changes made to the Model);
- (vi) if the Relevant Person in its reasonable commercial judgement concludes that an invalidity of the Base Case Warranty may have occurred, it may serve notice on BoI Life (a “**Potential Invalidity Notice**”). On receiving a Potential Invalidity Notice, BoI Life will review the Model in the light of the issues identified by the Relevant Person in order to identify whether the Model overstated the Dynamic Defined Block Surplus, on the basis set out above. BoI Life and the Relevant Person will seek to agree amongst themselves whether the Original Model overstated the projection of the Aggregate Dynamic Defined Block Surplus and by what amount;
- (vii) during the Pre-Amortisation Period the Potential Invalidity in an Accounting Period shall be set to nil where such Potential Invalidity amount (if known) would not have caused full or partial amortisation to occur;
- (viii) during the Pre-Amortisation Period the Potential Invalidity in an Accounting Period shall be set to nil where such Potential Invalidity amount (if known) was less than 2.5% per cent. of the Projected VIF at the end of that Accounting Period; and

- (ix) a “**Potential Invalidity**” in an Accounting Period is an Invalidity which would have arisen but for paragraph (vii) or (viii).
- (g) The Base Case Warranty will be deemed not to have been invalidated during the Amortisation Period unless the Cumulative Aggregate Base Case Invalidity Amount is greater than 2.5 per cent. of the Projected VIF at the start of the Amortisation Period.

For these purposes:

“**Actual Data**” means information about Dynamic Defined Block Policies and the reinsurances thereof input directly into the Original Model for the purposes of calculating the Base Case;

“**Aggregate Surplus**” means Surplus for the period from 30 June 2007 to 31 March 2032;

“**Assumptions**” means the Base Case Assumptions and the Stress Scenario Assumptions;

“**Base Case**” has the meaning given in “*The Base Case*” below;

“**Base Case Assumptions**” means the assumptions relating to, *inter alia*, mortality, morbidity, persistency rates, paid up rates, long term future investment returns, inflation, expenses, taxation and reserving set out, and described as such, in the Disc;

“**Disc**” means the computer disc which contains the Actual Data, Stress Scenario Assumptions, Base Case Assumptions and experience analyses, together with the Original Model (and including any later computer disc containing the most current version of the Model and the Relevant Assumptions as may have been agreed in accordance with the terms of the Limited Partnership Agreement to replace the Original Model), a copy of which has been or will be lodged with each of the Relevant Person and BoI Life, the General Partner, Ambac and the Security Trustee in accordance with the Calculation Agreement;

“**Relevant Person**” means Watson Wyatt Limited or such other actuarial firm that may be appointed, acting as Relevant Person under the Calculation Agreement; and

“**Stress Scenario Assumptions**” means the assumptions relating to, *inter alia*, mortality, morbidity, persistency rates, paid up rates, long term future investment returns, inflation, expenses, taxation and reserving set out, and described as such, in the Disc including those set out in the Prospectus.

#### *Mis-Selling*

1.20 BoI Life has not incurred and will not incur any Mis-Selling Liability which would have an adverse effect.

#### *Ongoing Assumptions (Business Assumptions which will be assumed to be valid on an ongoing basis)*

1.21 Subject to Law, BoI Life does not operate and no other BoI Life Group Entity operates a commission structure for product sales in such a way that a reasonable person would consider likely to encourage the sales force of BoI Life Group Entity or financial advisers to seek to encourage or procure that existing Policyholders in the Dynamic Defined Block cancel or fail to renew Policies and take out any new policies with BoI Life or a different insurer (“**Churning Activity**”), provided that:

- (a) there will be no Invalidity in respect of this paragraph and nothing in this paragraph will be construed as restricting any BoI Life Group Entity from introducing alternative charging structures to any of its new policies in the future; and

- (b) the ongoing assumption in this paragraph will not be invalid where BoI Life is operating a commission structure which is in line with that operated by its main life insurance competitors.

**“BoI Life Group Entity”** means Bank of Ireland and its subsidiaries and holding company, and any subsidiaries of its holding company.

1.22 Other than as required by law or otherwise required by BoI Life in order to carry out its business in the ordinary course, neither BoI Life nor any other BoI Life Group Entity shall make available, records in relation to the Policyholders to any person unless that person agrees in writing not to market or sell any policies as a replacement of a Policy provided that nothing in this paragraph shall prevent BoI Life from making a Policyholder’s records available to a financial adviser appointed by such Policyholder, or to an entity with which a BoI Life Group Entity is conducting marketing of policies which are materially different from the Policies. BoI Life shall take reasonable action to enforce any such agreement given by a person as a result of this paragraph.

1.23 BoI Life will manage the Policies and other relevant BoI Life Group Entities will be managed with a view to ensuring that Policyholders do not cancel or fail to renew their Policies and take up replacement policies with any other insurer where the principal purpose of such replacement policies is to move annual surplus or Projected VIF from the Dynamic Defined Block.

#### *Material Contracts*

1.24 BoI Life will not enter into or amend any Material Contract unless such contract or amendment is on Arm’s-length terms or better (from the perspective of BoI Life) or where the failure of such contract or amendment to be on Arm’s-length terms or better would not have an adverse effect.

**“Material Contract”** means any contract (other than any of the Transaction Documents):

- (a) where the aggregate consideration to be provided under the contract by BoI Life which is to be taken into account in calculating the Annual Recourse Cashflow Amount will, or is reasonably likely to, exceed €1 million *per annum*; and
- (b) which relates to the management or servicing of the Policies or the investment of assets backing Policies.

**“Arm’s-length terms”** means a transaction between two or more entities each of which has a separate and distinct interest and agreed terms with a mind to its own interest in a normal commercial manner unaffected by any special relationship.

#### *Servicing level*

1.25

- (a) The overall standard of service provided to Policyholders by BoI Life shall be no less favourable than that provided to other holders of policies written by BoI Life and no lower than that of a Prudent Insurer; and
- (b) the same level of skill and diligence shall be applied to the investment management of the property backing the Policy liabilities as to the property allocated to any other part of the Long-Term Business funds of BoI Life and shall be no lower than that of a Prudent Insurer.

**“Long-Term Business”** means (as principal) the life assurance business as such term is defined in the Insurance Act, 1936 of Ireland, including contracts falling within a class specified in Part A of Annex I to the European Communities (Life Assurance) Framework Regulations, 1994 of Ireland.

### *Investment*

1.26 BoI Life will not adopt and pursue an investment strategy in respect of assets relating to the liabilities of the Dynamic Defined Block which has the principal purpose of suppressing or delaying the emergence of the Annual Recourse Cashflow Amount or reducing the amount of Projected VIF.

### *Reinsurance*

1.27 BoI Life will not enter into contracts of reinsurance with the principal purpose of suppressing or delaying the emergence of the Annual Recourse Cashflow Amount or the amount of Projected VIF.

1.28 BoI Life shall promptly take all reasonable steps to seek recovery from reinsurers in respect of reinsurance agreements which relate to the Policies.

### *Ex Gratia Payments*

1.29 BoI Life will not make *ex gratia* payments in respect of the Policies other than in the ordinary conduct of its insurance business and acting as a Prudent Insurer.

1.30 No *ex gratia* payment made by BoI Life will affect the Annual Recourse Insurance Cashflow Amount, the Annual Recourse Savings Cashflow Amount, the Projected Insurance VIF or the Projected Savings VIF in any Accounting Period.

### *General conduct*

1.31 BoI Life will at all times conduct its business in accordance with the standards of a Prudent Insurer.

### *Compliance with Laws/Regulations*

1.32 BoI Life will not, and none of its directors, officers or agents will, default under or fail to comply with any Applicable Law which default or failure would have, either individually or in aggregate, an adverse effect.

1.33 BoI Life will maintain all Licences under any Applicable Law in force 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*

1.34 BoI Life will 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 BoI Life to fulfil its contractual obligations under such Policies, to properly administer such Policies and to enable it to comply with its obligations under the Calculation Agreement, including to calculate the Annual Recourse Cashflow Amount and Projected VIF appropriately.

1.35 BoI Life will 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 BoI Life to fulfil its contractual obligations under such Policies and to enable it to make the calculations required under the Calculation Agreement appropriately.

### *Provision of Information*

1.36 Save as prohibited by Applicable Law (including, in particular, any data protection law), BoI Life will permit the Relevant Person and the Independent Actuary and Ambac (for so long as it is the



Controlling Creditor) (and their duly appointed agents) access to such information and records in relation to the Policies and the assets and liabilities in respect of the Policies as are reasonably required to enable each recipient of information (each a "Recipient") to perform its functions under the Transaction Documents or review compliance by other parties of BoI Life with its obligations under the Transaction Documents and the reasonableness of the calculated Annual Recourse Insurance Cashflow Amount, Annual Recourse Savings Cashflow Amount, Projected Insurance VIF and Projected Savings VIF, including:

- (a) a copy of the annual statutory return and any supporting information relating to such statutory return; and
- (b) access to the annual computer download of Policy information and performance.

1.37 To the extent that BoI Life is prohibited from providing access to such information, BoI Life will, promptly following a reasonable request, use all reasonable endeavours to provide the information in a form which is not prohibited by Applicable Law (including, where necessary, without disclosing information such as would identify the policyholder, life assured or other data subject), to enable such Recipient to perform its functions or review compliance by BoI Life or other parties of their obligations under the Transaction Documents and the reasonableness of the Annual Recourse Insurance Cashflow Amount, Annual Recourse Savings Cashflow Amounts, Projected Insurance VIF and Projected Savings VIF calculations.

1.38 BoI Life will co-operate with each Recipient including making available on reasonable notice during normal office hours, reasonable access to its premises to inspect records, reasonable access to 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 Annual Recourse Insurance Cashflow Amount, the Annual Recourse Savings Cashflow Amount, Projected Insurance VIF and Projected Savings VIF calculations.

#### *Mis-selling Liability*

1.39 BoI 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 an 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 will not be taken into account.

"Mis-selling Liability" means any anticipated losses, costs and expenses incurred or expected or payments made, by BoI Life in respect of the Policies:

- (a) which result from or arise in connection with any complaint, claim, legal action or proceedings brought against BoI Life 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 Financial Services Ombudsman or any other ombudsman, any direction of the Financial Regulator for Ireland 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 BoI 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 Financial Regulator for Ireland or the Financial Services Ombudsman or any similar body or authority in relation to any person or group of persons, 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 Financial Regulator, the Financial Services 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 any of the Policy Originators or by any person for the activities of whom BoI Life or the Policy Originators has or had legal responsibility. The ongoing assumption in this paragraph 1.39 will not be invalid where BoI Life incurs costs and expenses in the ordinary course of business in updating or amending its policy documentation or systems to reflect changes in law or regulation (including without limitation the Irish Consumer Protection Code) as to the content requirements or manner of operation thereof.

#### *Guarantees*

1.40 BoI Life will not provide any guarantee of the obligations of any third party which either individually or in aggregate has or is likely to have an adverse effect.

#### *Eligible Policies*

1.41 A policy which does not meet the Eligibility Criteria will not be added to the Dynamic Defined Block.

“**Eligibility Criteria**” means, in respect of any policies entered into in respect of an Accounting Period, that a policy is a unit-linked policy excluding Class VII business and excluding any policies that provide unhedged (or not fully hedged) investment guarantees on surrender or maturity.

#### *Policy Amendments*

1.42 BoI Life will not amend the terms of any of the policies that make up the Dynamic Defined Block except as the terms of any of such policies may allow or where the policyholders would have a reasonable expectation that a change in the terms of the policy would be permitted or required by any Law, rule, regulation or guidance of any regulatory authority.

#### *Waiver of Payment*

1.43 BoI Life will not waive any of its material rights under a policy to payment or otherwise permit a policyholder to defer or avoid payment finally due and payable under the terms of a policy other than as may be allowed by the terms of the policy.

#### *Obligation to add Additional Policies following a Partial Sale Event*

1.44 If (i) one or more Partial Sale Events occur during an Accounting Period falling in the Amortisation Period and the aggregate of the Insurance VIF Sale Proceeds and Savings VIF Sale Proceeds in respect of such Partial Sale Events are less than the Projected VIF with respect to the Policies transferred in respect of such Partial Sale Events and (ii) BoI Life has Additional Policies (which have not already been included in the Dynamic Defined Block), Additional Policies with a projected value-in-force (determined using the same methodology as Projected VIF on the Annual Determination Date at the end of the relevant Accounting Period) at least equal to the deficit will be included in the Dynamic Defined Block on such Annual Determination Date with effect from the Accounting Date at the beginning of the Accounting Period in which such Annual Determination Date falls.

#### **Notification of Invalidity**

BoI Life will promptly notify the General Partner, each Limited Partner and each person nominated by a Limited Partner who is acting on behalf of any financiers of the Limited Partner or guarantor of any

such financier of any Invalidity in respect of the Business Assumptions (of which the senior management of BoI Life becomes aware) once the amount expected to result in adjustment is greater than 80 per cent. of the level at which a Material Adverse Effect is deemed to occur in the course of and as part of the Procedures. In addition, once the Invalidities exceed the threshold for compensation as a Material Adverse Effect, BoI Life will, as part of the Procedures, promptly notify the General Partner, Ambac, each Limited Partner and each person nominated by a Limited Partner who is acting on behalf of any financiers of the Limited Partner or guarantor of any such financier of the effect of such Invalidities on the calculations of the Annual Recourse Insurance Cashflow Amounts, Annual Recourse Savings Cashflow Amounts, Projected Insurance VIF and Projected Savings VIF once the amount expected to exceed the threshold for adjustment is greater than 80 per cent. of the relevant threshold and the effect of the Invalidities once they exceed the threshold for adjustments.

### **Invalidity Determinations**

If a Business Assumption proves to be invalid (an “**Invalidity**”), the effect of the Invalidity on the Annual Recourse Cashflow Amount and in determining the Projected VIF will be taken into account as described below. The following summarises the steps required to track the effect on the Annual Recourse Cashflow Amount and Projected VIF. The effect is required to be taken into account separately in determining the Annual Recourse Insurance Cashflow Amount and Annual Recourse Savings Cashflow Amount separately and the Projected Insurance VIF and Projected Savings VIF.

In respect of the Invalidities taken as a whole, the VIF Calculation Agent will make the determinations set out below with respect to the Insurance Block and the Savings Block of the Dynamic Defined Block, as appropriate.

If an Invalidity that occurred in an Accounting Period was discovered prior to the Amortisation Period, the following process shall be applied only with respect to determining any adjustment to the Annual Recourse Insurance Cashflow Amount in the preceding Accounting Periods and any adverse effect on Projected VIF will be dealt with solely through the process for determining whether Additional Policies are to be included in the Dynamic Defined Block (see “*Inclusion of Additional Policies in the Dynamic Defined Block*” below). If, following the application of that process, the Amortisation Period commences, the following provisions shall apply with respect to such Invalidity. The following provisions will also apply in full to any Invalidity that occurred in an Accounting Period falling prior to the Amortisation Period that was not discovered until after the Amortisation Period had begun. Otherwise the following process applies only in the Amortisation Period.

In the Accounting Period immediately prior to the Annual Determination Date in respect of which an Invalidity was first discovered, the amount of the resulting reduction in the sum of the Annual Recourse Insurance Cashflow Amount in that and prior Accounting Periods and the Projected Insurance VIF for subsequent Accounting Periods will be determined as at the Accounting Date falling at the end of such Accounting Period by the VIF Calculation Agent. The same calculation will be made with respect to the Savings Contracts. The VIF Calculation Agent shall notify the Relevant Person, the General Partner and each Limited Partner and Ambac in accordance with the Procedures. The amount so determined by the VIF Calculation Agent (which may be zero) is the “**Invalidity Amount**” in respect thereof.

No adjustment shall be made unless the cumulative Invalidities have an effect on the Annual Recourse Cashflow Amount or the Projected VIF and only that part which has such an effect is taken into account in the following calculations.

The following adjustments shall be made with respect to the Insurance Block and the Savings Block separately. The following summarises the steps in respect of the Insurance Block; the same procedures will be made with respect to the Savings Block. The VIF Calculation Agent shall first determine whether:

- (a) the relevant Invalidities give rise to a requirement to increase any reserves which are taken into account in the calculation of the Annual Recourse Insurance Cashflow Amount and Projected Insurance VIF ("**Affected Reserves**"); or
- (b) the relevant Invalidities give rise to a reduction in the Annual Recourse Insurance Cashflow Amount and/or Projected Insurance VIF without affecting the reserves taken into account in calculations of such amounts.

To the extent that Invalidities are partly in (a) and partly in (b) or there are some in one and some in the other, the VIF Calculation Agent shall treat that part in (a) as separate to that part in (b) and deal with the part in (a) as described below in respect of "*Invalidities Affecting Reserves*" and that part in (b) as described below in respect of "*Invalidities Not Affecting Reserves*"

*Invalidities Affecting Reserves*

For Invalidities affecting reserves, the Invalidity Amount will be divided into two parts, as determined by the VIF Calculation Agent, being:

- (a) the amount of any Affected Reserve set aside by BoI Life in respect of such Invalidities (the "**Reserve Amount**"), which amount may be zero; and
- (b) the excess of the Invalidity Amount over the Reserve Amount in respect of such Invalidity (a "**Current Loss Amount**"), which amount may be zero.

In respect of each subsequent Accounting Period, the following will be determined in respect of Invalidities affecting reserves:

- (a) if the Affected Reserve in respect of such Invalidities as at the end of the relevant Accounting Period exceeds the Affected Reserve in respect of such Invalidities as at the beginning of the Accounting Period, the amount of the excess will be determined (such amount being an "**Invalidity Reserve Increase**");
- (b) if the Affected Reserve in respect of such Invalidities as at the end of the relevant Accounting Period is less than the Affected Reserve in respect of such Invalidities as at the beginning of the Accounting Period, or there is no Affected Reserve in respect of such Invalidity at the end of the relevant Accounting Period (including, for the avoidance of doubt, by virtue of any Affected Reserve established in respect of such Invalidity at the beginning of the Accounting Period being applied in paying any actual cost, loss, expense or liability in respect of such Invalidities in such Accounting Period (as to which see paragraph (d) below)), the reduction will be determined (such amount being an "**Invalidity Reserve Reduction**");
- (c) the amount of Invalidity Reserve Increase that results from the operation of the relevant discount rate (an "**Invalidity Gross Up**");
- (d) the amount of any Affected Reserve in respect of such Invalidities at the beginning of the Accounting Period which has been applied in paying any actual cost, loss, expense or liability in respect of such Invalidities (in respect of such Invalidity, an "**Applied Reserve**");
- (e) the amount applied in paying any actual cost, loss, expense or liability in respect of such Invalidities which is not included within paragraph (d) above and which affects the Annual Recourse Insurance Cashflow Amount (an "**Additional Amount**"); and
- (f) if the Projected Insurance Surplus has increased by reason of a recovery made by BoI Life in respect of any amount taken into account in this calculation (whether from the person paying the relevant amount or any other person) the amount of such recovery which affects the

Annual Recourse Insurance Cashflow Amount (after deducting the costs of recovery to the extent reflected therein) will be determined (a “**Recovery Amount**”).

*Invalidities Not Affecting Reserves*

For Invalidities not affecting reserves, the VIF Calculation Agent:

- (a) shall determine the effect of such Invalidities on the Annual Recourse Insurance Cashflow Amount (a “**Current Loss**”) (and shall recalculate the effect as at each subsequent Annual Determination Date with respect to the Accounting Period last ended before it, which amount shall be the Current Loss for such period); and
- (b) the present value, using the applicable discount rate, of the projected effects on Projected Insurance VIF in subsequent Accounting Periods (the “**Projected Insurance VIF Loss**”) (and shall recalculate the effect as at each subsequent Annual Determination Date with respect to the Accounting Periods to which such projection then relates, which amount shall be an amount of the Projected Insurance VIF Loss as at the Annual Determination Date as at which such calculation is made).

*Timing of Determinations*

The determinations required to be made under the Limited Partnership Agreement in respect of an Invalidation in any Accounting Period will, subject to the warranty dispute procedure described in “*Warranty Dispute Notice*” below, be made by the VIF Calculation Agent no later than the Annual Determination Date immediately following the relevant Accounting Period.

*Minimum Thresholds*

In respect of each Accounting Period, the VIF Calculation Agent will calculate the following with respect to the Dynamic Defined Block (both the Insurance Contracts and Savings Contracts):

- (I) the “**Aggregate Current Amount**” as at the end of such Accounting Period, being the aggregate of the following amounts in respect of all Invalidities which have occurred with respect to the Dynamic Defined Block in that Accounting Period or any prior Accounting Period:
  - (a) the Current Loss Amounts; plus
  - (b) the Applied Reserves; plus
  - (c) the Additional Amounts; less
  - (d) any Recovery Amounts;
- (II) the “**Aggregate Future Amount**” as at the end of such Accounting Period, being the aggregate of the following amounts in respect of all Invalidities which have occurred with respect to the Insurance Block or the Savings Block, as applicable, in that Accounting Period or any prior Accounting Period:
  - (a) the Reserve Amounts; plus
  - (b) the Invalidation Reserve Increases; less
  - (c) the Invalidation Reserve Reductions; less
  - (d) the Invalidation Gross Ups.

The aggregate as at the end of such Accounting Period of the Aggregate Future Amount and the Aggregate Current Amount with respect to the Insurance Block or the Savings Block, as applicable, (in respect of such Accounting Period, being the “**Aggregate Loss Amount**”).

In addition, the VIF Calculation Agent will determine the Projected Insurance VIF Loss (and the equivalent for the Savings Contracts, being the “**Projected Savings VIF Loss**” which, when aggregated with the Projected Insurance VIF Loss is the “**Projected VIF Loss**”).

#### *Compensating for Losses*

If the Aggregate Loss Amount (including, for the avoidance of doubt, the Aggregate Base Case Invalidity Amount (if any)) exceeds (a) the Aggregate Funded Loss Amount prior to the Annual Determination Date immediately preceding the Maturity Date by the higher of (i) 2.5 per cent. of the current principal amount of the Notes and (ii) €5,000,000 or (b) on the Annual Determination Date immediately preceding the Maturity Date, the Aggregate Funded Loss Amount, the VIF Calculation Agent shall treat an amount equal to the Aggregate Loss Amount arising which is allocable to the Insurance Contracts (as calculated above) as an “**Aggregate Insurance Business Assumption Adjustment Amount**” and the amount which is allocable to the Savings Contracts as an “**Aggregate Savings Business Assumption Adjustment Amount**” (thereby resulting in an increase in the Annual Recourse Insurance Cashflow Amount or the Annual Recourse Savings Cashflow Amount, as applicable).

In addition, except during the Pre-Amortisation Period, the Projected Insurance VIF and the Projected Savings VIF shall be treated as increased by the Projected Insurance VIF Loss or Projected Savings VIF Loss as applicable when determining the Projected Insurance VIF and Projected Savings VIF.

For these purposes:

“**Aggregate Funded Loss Amount**” means the aggregate amounts previously included in the calculation of the Annual Recourse Cashflow Amount as an Aggregate Insurance Business Assumption Adjustment Amount or Aggregate Savings Business Assumption Adjustment Amount.

#### *Overfunded Amounts*

If the Aggregate Funded Loss Amount exceeds the Aggregate Loss Amount with respect to the Insurance Block or the Savings Block, as applicable, (such excess being the “**Overfunded Amount**”) at an Accounting Date, such amount will be a negative Aggregate Insurance Business Assumption Adjustment Amount or a negative Aggregate Savings Business Assumption Adjustment Amount (thereby resulting in a decrease in the Annual Recourse Insurance Cashflow Amount or the Annual Recourse Savings Cashflow Amount, as applicable at the next Annual Determination Date).

#### *Records*

The VIF Calculation Agent will maintain a ledger recording the Invalidities and all other matters necessary to enable the provisions of this section to be carried out.

#### *Warranty Dispute Notice*

BoI Life shall use reasonable efforts to agree with the Relevant Person whether any Invalidities have occurred and their effect as described above. In the event of a dispute as to the occurrence of an Invalidity or the determination of any of the amounts referred to in the provisions of this section dealing with compensating for Invalidities, such dispute will be resolved by an Independent Actuary (as defined below) who will be appointed following the service by either the VIF Calculation Agent or the Relevant Person or the General Partner or Ambac (for so long as it is the Controlling Creditor) of a

notice identifying the issues in dispute and requesting the appointment of the Independent Actuary (the “**Warranty Dispute Notice**”).

Each of the VIF Calculation Agent and the Relevant Person and the General Partner and Ambac (for so long as it is the Controlling Creditor) will provide to each other and the Independent Actuary a statement setting out their arguments in respect of the issues specified in the Warranty Dispute Notice within 10 Business Days of the later of:

- (a) the Independent Actuary being appointed; and
- (b) the Relevant Person receiving the information it has requested pursuant to the Calculation Agreement.

The Independent Actuary will consider the arguments set out in the statements provided by each of the VIF Calculation Agent and the Relevant Person, together with such other information as the Independent Actuary may require them to provide to him, and determine the matter in dispute (the “**Independent Determination**”).

Following Independent Determination by the Independent Actuary, the VIF Calculation Agent will:

- (a) use the Independent Determination for the purposes of determining whether an Invalidity has occurred and for the purposes of determining an Invalidity Amount in respect of such Accounting Period; and
- (b) adopt the Independent Determination:
  - (i) for determining the Projected Insurance Surplus (and the Projected Insurance VIF Relevant Components thereof), Projected Savings Surplus (and the Projected Savings VIF Relevant Components thereof), Projected Insurance VIF and Projected Savings VIF for, or in respect of, subsequent Accounting Periods; and
  - (ii) in determining the effect of any relevant Invalidity.

The Independent Actuary’s determination will be final and binding except in the case of manifest error.

The Independent Actuary will be a person, acting as expert and not as arbitrator, who is agreed between the Relevant Person, Ambac and BoI Life or, failing agreement, such person as may be nominated by the then President of the Society of Actuaries in Ireland (or any successor body). The Independent Actuary may take such professional advice as he considers necessary or desirable.

The costs and expenses of the Independent Actuary will form part of the costs and expenses of calculating the Annual Recourse Cashflow Amount, and be allocated as set out under Step 5 under “*The Procedures for determining the Annual Recourse Cashflow Amount and the Projected VIF*” below.

In addition to the foregoing, Ambac (as long as it is Controlling Creditor) may once a year, and subject to reasonable access to staff and systems require, the Independent Actuary to conduct a separate review. The costs of the Independent Actuary from such separate review will be borne by Ambac unless the Independent Actuary discovers an Invalidity of five per cent. or greater of the Projected VIF or an Invalidity reducing the Annual Recourse Cashflow Amount by ten per cent. or more of the Projected Surplus for the relevant Accounting Period, in which case the costs of the Independent Actuary will be borne by the Limited Partnership.

### **The Procedures for determining the Annual Recourse Cashflow Amount and the Projected VIF**

The following summarises the procedures which the VIF Calculation Agent is required to adopt under the Limited Partnership Agreement in determining the Annual Recourse Cashflow Amount and Projected VIF (and subsidiary and ancillary calculations) (the "Procedures").

The VIF Calculation Agent agrees to make the calculations and determinations required of it in Schedule 5 of the Limited Partnership Agreement in respect of each Accounting Period and by the dates set out therein, which calculations are summarised in this section "*Description of the Dynamic Defined Block*". Such calculations and determinations will be made by it on behalf of the General Partner and will reflect all applicable laws, accounting and actuarial practice and guidelines applicable to BoI Life and, unless otherwise required by the Limited Partnership Agreement, the way in which BoI Life operates and accounts for such policies through the Model.

**Step 1:** The VIF Calculation Agent will, in determining any reserves for the purposes of its calculations, do so in accordance with the Initial Reserving Basis or the then Permitted Reserving Basis (each as defined below). The VIF Calculation Agent will in calculating the Projected VIF (and sub-parts thereof) use the applicable Relevant Assumptions.

For these purposes:

**"Initial Reserving Basis"** means the reserving basis used for the purposes of the Base Case and is recorded on the Disc. The Initial Reserving Basis will be notified by the VIF Calculation Agent to the Relevant Person in writing, with a copy to the Limited Partner on or before the Closing Date by depositing a copy of the Disc with them (or a person nominated by them).

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

**"Permitted Change"** means any change to the current Permitted Reserving Basis in respect of the Dynamic Defined Block (or the Insurance Block or Savings Block components thereof, including as a result of the inclusion therein of any Additional Policies meeting the Eligibility Criteria) which the VIF Calculation Agent, acting reasonably, determines is appropriate to reflect:

- (a) a change in any Applicable Law or a change in interpretation thereof; or
- (b) a change to professional guidance issued by the Society of Actuaries in Ireland (or any successor thereto) or to the guidance issued by or on behalf of the Financial Regulator for Ireland; or
- (c) a change in or refinement to the actual or expected experience in respect of the Dynamic Defined Block or any part of it (or BoI Life's business generally) from prior actual or expected experience of BoI Life or, if appropriate, of the life assurance industry or any relevant sector thereof; or
- (d) a change in generally accepted accounting principles (being Irish GAAP (including International Financial Reporting Standards, as applicable)) or actuarial practice, or an improvement in estimation or approximation techniques used in the life assurance industry; or
- (e) a change which the Financial Regulator for Ireland indicates to BoI 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 31 December 2006 and which would affect the components taken into account in calculating the Annual Recourse Cashflow Amount in respect of any period or in determining the Projected VIF for any period; or



- (f) any improvement adopted by BoI Life in (i) determining estimation techniques or (ii) the application of estimation techniques; or
- (g) the anticipated experience in respect of the performance of the Insurance Block and/or Savings Block with respect to assumptions made previously (including persistency, lapse, mortality and morbidity rates), (i) taking account of and being consistent with the historic experience of the Dynamic Defined Block, of BoI Life as a whole and of the life assurance industry with respect to comparable business, (ii) in a consistent manner across the Relevant Insurance Assumptions and/or the Relevant Savings Assumptions (as applicable) and for the different product groups, in each case to the extent relevant, (iii) applying such assumptions consistently across BoI Life's business and (iv) in the case of projected returns on assets, taking account of the expected long-term performance of the relevant fund, anticipated long-term inflation rates, anticipated asset mixes and current long-term yields on the relevant asset class and the other economic assumptions made in connection with determining the Projected VIF and other Relevant Calculations.

**"Applicable Law"** means any law, statute, regulation, treaty, directive, by-law, rule, order, delegated legislation or any official request of any government, governmental authority, regulator (including the Financial Regulator for Ireland), whether local, regional, national or supra-national (including rules, regulations or guidelines of any regulatory body applicable to BoI Life or with which BoI Life customarily complies from time to time), in each case as in-force from time to time and interpreted at the relevant time.

The VIF Calculation Agent will, in addition, in determining the Relevant Insurance Assumptions or the Relevant Savings Assumptions for the purposes of its projections, do so in accordance with the Base Case Assumptions subject to any Permitted Assumption Change (as defined below). The VIF Calculation Agent will, in calculating the Projected Insurance VIF, use the applicable Relevant Insurance Assumptions and, in calculating the Projected Savings VIF, use the applicable Relevant Savings Assumptions.

For these purposes:

**"Permitted Assumption Change"** means any change to the then Relevant Insurance Assumptions or Relevant Savings Assumptions, as applicable, in respect of the Dynamic Defined Block (or the Insurance Block or Savings Block components thereof, including as a result of the inclusion therein of any Additional Policies meeting the Eligibility Criteria) which the VIF Calculation Agent acting reasonably, determines is appropriate to reflect:

- (a) a change or expected change in any Applicable Law or a change or expected change in interpretation thereof; or
- (b) a change or expected change to professional guidance issued by the Society of Actuaries in Ireland (or any successor thereto) or to the guidance issued by or on behalf of the Financial Regulator for Ireland; or
- (c) a change in or refinement to the actual or expected experience in respect of the Dynamic Defined Block or any part of it (or BoI Life's business generally) from prior actual or expected experience of BoI Life or, if appropriate, of the life assurance industry or any relevant sector thereof; or
- (d) a change or expected change in generally accepted accounting principles (being Irish GAAP (including International Financial Reporting Standards, as applicable)) or actuarial practice, or an improvement in estimation or approximation techniques used in the life assurance industry; or

- (e) a change which the Financial Regulator for Ireland indicates to BoI 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 31 December 2006 and which would affect the components taken into account in calculating the Annual Recourse Cashflow Amount in respect of any period or in determining the Projected VIF for any period; or
- (f) any improvement adopted by BoI Life in (i) determining estimation techniques or (ii) the application of estimation techniques; or
- (g) the anticipated experience in respect of the performance of the Insurance Block and/or Savings Block with respect to assumptions made previously (including persistency, lapse, mortality and morbidity rates), (i) taking account of and being consistent with the historic experience of the Dynamic Defined Block, of BoI Life as a whole and of the life assurance industry with respect to comparable business, (ii) in a consistent manner across the Relevant Insurance Assumptions and/or the Relevant Savings Assumptions (as applicable) and for the different product groups, in each case to the extent relevant, (iii) applying such assumptions consistently across BoI Life's business, and (iv) in the case of projected returns on assets, taking account of the expected long-term performance of the relevant fund, anticipated long-term inflation rates, anticipated asset mixes and current long-term yields on the relevant asset class and the other economic assumptions made in connection with determining the Projected VIF and other Relevant Calculations.

**Step 2:** In March of each Accounting Period, the VIF Calculation Agent will consult with the Relevant Person 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 Annual Recourse Cashflow Amount and the Projected VIF.

In determining the Annual Recourse Cashflow Amount (and the other Relevant Calculations required in respect thereof) in respect of any Accounting Period, the basis to be used will be the Permitted Reserving Basis for the Accounting Period immediately preceding the Accounting Period in respect of which such amount is being determined (in respect of the Annual Recourse Cashflow Amount and such Accounting Period, the "**Current Valuation Basis**") (or, in the case of the Accounting Period ending in March 2008, the Initial Reserving Basis) adjusted to take into account any Permitted Changes thereto which have been determined by the VIF Calculation Agent to be appropriate (as so adjusted, "**Proposed Valuation Basis**").

In determining the Projected VIF (and the other Relevant Calculations required in respect thereof) in respect of any Accounting Date, the basis to be used will be the Permitted Reserving Basis and the Relevant Assumptions (as applicable), as the case may be, for the previous projection of Projected VIF (or, in the case of the Accounting Date falling in March 2008, the Initial Reserving Basis and the Base Case Assumptions) (in respect of the Projected VIF and other Relevant Calculations required in respect thereof, the "**Current VIF Valuation Basis**") adjusted to take into account any Permitted Changes or Permitted Assumption Changes thereto which have been determined by the VIF Calculation Agent to be appropriate (in respect of the Projected VIF and such Accounting Date, the "**Proposed VIF Valuation Basis**").

**Step 3:** The VIF Calculation Agent will notify the Relevant Person in writing by no later than 20 May (or if such a day is not a Business Day, the immediately preceding Business Day) (the "**Notification Date**") giving details of the significant aspects of the Proposed Valuation Basis and Proposed VIF Valuation Basis, together with details of any changes in methodology as against the Current Valuation Basis and Current VIF Valuation Basis to be used in calculating the Annual Recourse Cashflow Amount or the Projected VIF (and any Relevant Calculations required in connection therewith) in respect of such Accounting Period.

The Proposed Valuation Basis and Proposed VIF Valuation Basis will:

- (a) highlight changes proposed to be made to the Current Valuation Basis and the Current VIF Valuation Basis (or, in the case of the year ending in March 2008, to the valuation basis used in determining the Base Case);
- (b) include certain supporting details and documentation, which will, without limitation, include:
  - (i) information, in form and detail substantially the same as that customarily produced by BoI Life, in relation to the decrement and expense assumptions, mortality/morbidity, persistency and taxation (the “**General Information**”);
  - (ii) in the event of any changes or events that have affected the Annual Recourse Cashflow Amount then emerging or the Projected VIF (and any Relevant Calculations required in connection therewith), 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 or Proposed VIF Valuation Basis for determining the Annual Recourse Cashflow Amount or the Projected VIF (and any Relevant Calculations (as defined below) required in connection therewith) (as applicable) (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 or Proposed VIF Valuation Basis for determining the Annual Recourse Cashflow Amount or the Projected VIF (and any Relevant Calculations required in connection therewith) (as applicable) (the “**Additional Information**”);
- (c) include an initial calculation of:
  - (i) in respect of the Accounting Period ending immediately prior to such Notification Date, the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount (including the Aggregate Annual Insurance Adjustment Amount and Aggregate Annual Savings Adjustment Amount in respect thereof, the Aggregate Insurance Business Assumption Adjustment Amount and the Aggregate Savings Business Assumption Adjustment Amount) together with the adjustments required to be made pursuant to the Limited Partnership Agreement to determine the Annual Recourse Cashflow Amount, the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount in respect of such Accounting Period; and
  - (ii) in respect of the Accounting Date ending immediately prior to such Notification Date, the Projected VIF, the Projected Insurance VIF, the Projected Savings VIF, the Additional Policies Projected Surplus, the Additional Policies Projected Insurance Surplus, any Insurance VIF Sale Proceeds, any Savings VIF Sale Proceeds, the Additional Policies Projected Savings Surplus, the Additional Policies Projected VIF, the Additional Policies Projected Insurance VIF, the Additional Policies Projected Savings VIF, the Stressed VIF, the Stressed Insurance VIF, the Stressed Savings VIF, the Projected Insurance VIF Relevant Components, the Projected Savings VIF Relevant Components, the Projected Insurance Surplus, the Projected Savings Surplus, the Projected Insurance VIF Loss and the Projected Savings VIF Loss.

(together the “**Relevant Calculations**”) (the “**VIF Calculation Agent Preliminary Calculations**”), together with supporting documentation (consisting of the General Information, the Specific Information and the Additional Information together with such additional information as the Relevant Person has reasonably required to assist in determining whether such calculations are justifiable) and an analysis of the results on or prior to the Notification Date; and

- (d) include an explanation of the rationale of the Proposed Valuation Basis and Proposed VIF Valuation Basis for determining the Relevant Calculations (to the extent it differs from the Current Valuation Basis or Current VIF Valuation Basis).

The VIF Calculation Agent will notify the Relevant Person of any other changes or events other than insignificant or extraneous changes or events in respect of the Accounting Period which may have an impact on the Relevant Calculations as soon as practicable after becoming aware of the same.

**Step 4: If:**

- (i) the Projected VIF proposed by the VIF Calculation Agent is less than 90 per cent. of the Expected VIF (as defined below), ignoring variance due to market movements for the relevant Accounting Period; or
- (ii) the Annual Recourse Cashflow Amount for the relevant Accounting Period is less than 80 per cent. of the Projected Surplus for the relevant Accounting Period determined as at the immediately preceding Annual Determination Date; or
- (iii) the Projected VIF proposed by the VIF Calculation Agent is less than 150 per cent of the outstanding principal balance of the Notes,

(any such occurrence, a "**Benchmark Event**"), the Relevant Person will, by the date falling ten Business Days after 20 May, inform the VIF Calculation Agent of any aspects of the Proposed Valuation Basis that the Relevant Person considers unreasonable or any Relevant Calculation that the Relevant Person considers inaccurate. If the VIF Calculation Agent does not agree on or before the date falling five business days after receiving notice from the Relevant Person to revise the Proposed Valuation Basis (as applicable) or Relevant Calculation or Proposed VIF Valuation Basis (as applicable) or Relevant Calculation in line with the comments of the Relevant Person, the VIF Calculation Agent and the Relevant Person (acting as instructed by Ambac (where Ambac is the Controlling Creditor)) will arrange for the immediate appointment of an Independent Actuary, who will select the valuation basis proposed by the VIF Calculation Agent or Relevant Person, which basis will become the Current Valuation Basis or Current VIF Valuation Basis, as applicable. If the Relevant Person has not, following request therefor, been provided with information reasonably sufficient for the purpose of informing and/or agreeing the matters described above, the Relevant Person will arrange for the immediate appointment of an Independent Actuary who will determine whether the valuation basis proposed by the VIF Calculation Agent is unreasonable or inaccurate and if it so determines, (or if the VIF Calculation Agent does not propose any valuation basis) shall determine a basis which is reasonable, which shall be the Current Valuation Basis or Current VIF Valuation Basis, as applicable.

The "**Independent Actuary**" will be a person, acting as expert and not as arbitrator, who is agreed between the Relevant Person and the VIF Calculation Agent or, failing agreement, who is nominated by the then President of the Society of Actuaries in Ireland (or any successor body) for the purpose. The Independent Actuary may take such professional advice as he considers necessary or desirable (increased each year from the Closing Date in line with the UK retail prices index).

The Limited Partnership will pay the costs of the Relevant Person up to a cap of, while Watson Wyatt is the Relevant Person, €20,000 (exclusive of VAT) *per annum* (increased each year from the Closing Date in line with the UK retail prices index) save in a year in respect of which a Benchmark Event occurs, when the cap will be, while Watson Wyatt is the Relevant Person, €100,000 (exclusive of VAT) (increased each year from the Closing Date in line with the UK retail prices index), provided that if Watson Wyatt is no longer the Relevant Person the fees and expenses of the Relevant Person will no longer be subject to a cap (unless otherwise agreed with the successor Relevant Person). The costs of the Independent Actuary will be borne by the Limited Partnership up to a cap of €100,000 (increased each year from the Closing Date in line with the UK retail prices index). Thereafter each of

Ambac (as long as it is the Controlling Creditor) and BoI Life may direct the Independent Actuary to do further work; the costs of the Independent Actuary from any such further work will be borne by the requesting party unless the Independent Actuary discovers an Invalidity of five per cent. or greater of the Projected VIF or an invalidity reducing the Annual Recourse Cashflow Amount by ten per cent. or more of the Projected Surplus for the relevant Accounting Period, in which case the costs of the Independent Actuary will be borne by the Limited Partnership. The amounts in this paragraph will be increased each year by reference to the UK retail prices index.

**Step 5:** On the third Business Day prior to the Annual Determination Date in each year (the “**Relevant Calculations Notification Date**”), the VIF Calculation Agent will inform the General Partner, the Relevant Person and, for as long as Ambac is the Controlling Creditor, Ambac and thereafter the Security Trustee of the Relevant Calculations determined in accordance with the above procedures.

If the Independent Actuary makes a selection of one of the valuation bases, the valuation basis selected will become the Current Valuation Basis or the Current VIF Valuation Basis, as applicable. In the event that the Independent Actuary fails to make its selection under Step 4 on or by the Relevant Calculations Notification Date, the VIF Calculation Agent will determine the Relevant Calculations for such Accounting Period as the VIF Calculation Agent Preliminary Calculations (or such other amount as may be agreed with the Relevant Person) (the “**Assumed Evaluation**”).

If, after the Relevant Calculations Notification Date, the Independent Actuary selects the Relevant Person’s Proposed Valuation Basis or Proposed VIF Valuation Basis as the most appropriate valuation basis under Step 4 and the Relevant Person’s Proposed Valuation Basis or Proposed VIF Valuation Basis exceeds the amount of the relevant Assumed Evaluation, the VIF Calculation Agent will accept such determination of the Independent Actuary and make such adjustments to the valuation basis for the next succeeding Accounting Period as are necessary to ensure that the Relevant Calculations will be increased by an amount equal to the excess of the Relevant Person’s Proposed Valuation Basis or Proposed VIF Valuation Basis over the relevant Assumed Evaluation.

#### **Inclusion of Additional Policies in the Dynamic Defined Block**

The requirement to make repayments of principal on the IL Loan or distributions of SLLPI Loan Reduction Profit Amounts (the “**Principal Payments**”) will depend on whether the Projected Insurance VIF, Projected VIF and Stressed VIF meet certain tests. Principal Payments are limited to the amounts determined under the Limited Partnership Agreement (see “*Terms and Conditions of the Insurance-linked Loan and the Savings-Linked Limited Partnership Interest – Operation of the Capital Accounts, Distribution of Profit and Payments in respect of the IL Loan*” below). Very broadly, the ability to defer making Principal Payments depends on whether the Projected VIF and Stressed VIF meet certain criteria and if they do not before adding Additional Policies to the Dynamic Defined Block and/or making partial payments of Principal Payments which are less than would be required if a Full Amortisation Event had occurred, whether they meet such criteria after such Additional Policies are added and/or partial payments made.

The following summarises the process for determining whether Additional Policies need to be added or whether the ability to defer payment is limited in whole (due to a Full Amortisation Event) or in part.

The VIF Calculation Agent will determine in respect of each Annual Determination Date falling on or before the Annual Determination Date in July 2012 (or, if earlier, commencement of the Amortisation Period) whether Additional Policies are to be added to the Insurance Block and the Savings Block in accordance with the following procedures. If the tests are applied and they do not result in a Full Amortisation Event (as defined below) then the most recently-ended Accounting Period will be treated as included in the Pre-Amortisation Period (and not in the Amortisation Period). If the tests are applied and they result in a Full Amortisation Event then the most recently-ended Accounting Period and all subsequent Accounting Periods will be treated as falling in the Amortisation Period (and not in

the Pre-Amortisation Period). Assuming a Full Amortisation Event does not occur before then, the last Accounting Period in respect of which the tests will be applied will be the Accounting Period ending in March 2012. If the tests are applied and satisfied, that Accounting Period will be included in the Pre-Amortisation Period and the Accounting Period commencing in March 2012 and ending in March 2013 will be the first Accounting Period in the Amortisation Period. If the tests are applied but not satisfied in respect of the Accounting Period ending in March 2012 then that Accounting Period will be the first Accounting Period in the Amortisation Period.

For the purposes of each of the following steps (other than Step 2), Projected VIF will be calculated using a discount rate equal to the Projected Spread Rate.

### Step 1

The VIF Calculation Agent will determine whether either of the following events has occurred:

- (a) the aggregate of:
  - (i) the Annual Recourse Insurance Cashflow Amount in respect of the Accounting Period immediately preceding such Annual Determination Date (for the purposes of this summary, the “**Relevant Accounting Period**”); and
  - (ii) the Annual Recourse Savings Cashflow Amount if the Annual Recourse Savings Cashflow Amount in respect of the Relevant Accounting Period is greater than zero and the General Partner makes a Savings Surplus Election in respect of such Annual Determination Date;is less than the Spread determined in respect of the Spread Calculation Period ending closest to such Annual Determination Date; or
- (b) the Projected VIF (being the aggregate of the Projected Insurance VIF and the Projected Savings VIF) as at the end of the Relevant Accounting Period is less than 80 per cent. of the Expected VIF.

For these purposes, “**Expected VIF**” is, on an Annual Determination Date, the Projected VIF calculated at the previous Annual Determination Date (or, in the case of the first Annual Determination Date, as set out in the Base Case) multiplied by the product of (1+ Projected Spread Rate) less the sum of the Projected Insurance Surplus and the Projected Savings Surplus projected to arise at the previous Annual Determination Date in the Accounting Period first ending after such Annual Determination Date, or in the case of the first Annual Determination Date, such amounts as calculated for the Base Case.

If either of the above-described events has occurred (the occurrence of either being a “**Full Amortisation Event**”), no further Additional Policies may be added to the Dynamic Defined Block.

### Step 2

For the purposes of Step 2 only, Projected Balance Sheet Insurance VIF will be calculated using an interest rate equal to the discount rate used by Bank of Ireland for its most recently published consolidated annual accounts.

If a Full Amortisation Event has not occurred on the Relevant Annual Determination Date or any prior Annual Determination Date, the VIF Calculation Agent will:

- (a) first determine whether the Projected Balance Sheet Insurance VIF in respect of the Dynamic Defined Block (before the notional addition of any Additional Policies pursuant to this Step

on such Annual Determination Date) is greater than the IL Loan Account Opening Balance in respect of the Relevant Accounting Period:

- (i) if the Projected Balance Sheet Insurance VIF in respect of the Dynamic Defined Block on the Accounting Date at the end of the Relevant Accounting Period (before the notional addition of any Additional Policies pursuant to this Step 2 on such Annual Determination Date) is not greater than the IL Loan Account Opening Balance in respect of the Relevant Accounting Period, the VIF Calculation Agent will notionally add Additional Policies to the Dynamic Defined Block as described in Step 2 paragraph (b) below; or
  - (ii) if the Projected Balance Sheet Insurance VIF in respect of the Dynamic Defined Block on the Accounting Date at the end of the Relevant Accounting Period (before the notional addition of any Additional Policies on such Annual Determination Date) is greater than or equal to the IL Loan Account Opening Balance in respect of the Relevant Accounting Period, the VIF Calculation Agent will make the calculation in Step 3 set out below.
- (b) If the test under Step 2 paragraph (a)(i) above is met, the Additional Policies that have not already been included (or notionally included) in the Dynamic Defined Block, which were entered into in the earliest Accounting Period (after the Accounting Period ending in March 2007) in respect of which Additional Policies have not been added (or notionally added for purposes of the current calculation on the relevant Annual Determination Date) to the (or did not form part of the original) Dynamic Defined Block (such Accounting Period, the “Source Period”) will be notionally added to the Dynamic Defined Block (and the calculation in Step 2 paragraph (a)(i) above will be repeated on the relevant Annual Determination Date with respect to the Dynamic Defined Block as if such Additional Policies were included therein). The process of notionally including Additional Policies from successive Source Periods and then recalculating will be repeated until either:
  - (i) the Projected Balance Sheet Insurance VIF in respect of the Dynamic Defined Block at the end of the Relevant Accounting Period (after the notional addition of Additional Policies pursuant to this paragraph on the Accounting Date at the end of the Relevant Accounting Period) is greater than the IL Loan Account Opening Balance in respect of the Relevant Accounting Period, in which case the VIF Calculation Agent will make the calculations in Step 3 set out below; or
  - (ii) after notionally adding all Additional Policies which were entered into in the Relevant Accounting Period and all prior Accounting Periods (after the Accounting Period ending in March 2007) which have not previously been notionally added to the Dynamic Defined Block pursuant to this paragraph on such Annual Determination Date (or actually added in respect of any prior Annual Determination Date), the VIF Calculation Agent determines that the Projected Balance Sheet Insurance VIF in respect of the Dynamic Defined Block at the end of the Relevant Accounting Period (after the notional addition of any Additional Policies on the Accounting Date at the end of the Relevant Accounting Period) is less than the IL Loan Account Opening Balance in respect of the Relevant Accounting Period, in which event the VIF Calculation Agent will make the calculations in Step 2 paragraph (c) below.
- (c) The VIF Calculation Agent will determine whether, if (x) Step 2 paragraph (a)(i) applies and after notionally adding all Additional Policies which were entered into in the Relevant Accounting Period and prior Accounting Periods which have not previously been notionally added to the Dynamic Defined Block pursuant to Step 2 paragraph (b)(ii) above and (y) notionally applying the Annual Recourse Insurance Cashflow Amount for the Relevant Accounting Period less the Insurance Spread for the current Annual Determination Date (to a

minimum of zero) (being the “**Available IL Loan Principal**”) in repaying the IL Loan, the Projected Balance Sheet Insurance VIF in respect of the Dynamic Defined Block at the end of such Accounting Period (after the notional addition of such Additional Policies) is equal to or more than the IL Loan Account Opening Balance in respect of the Relevant Accounting Period less the Available IL Loan Principal.

(i) If it is, the VIF Calculation Agent will:

(A) set aside the Insurance Spread in respect of such Annual Determination Date out of the Annual Recourse Insurance Cashflow Amount (the amount so set aside being the “**Funded Insurance Spread**”);

(B) determine the amount of the Available IL Loan Principal which is required to be paid as partial amortisation (the “**Applied Available IL Loan Principal**”) (provided that no such partial amortisation will be paid if the procedures set out below result in a Full Amortisation Event), being the IL Loan Account Opening Balance in respect of the Relevant Accounting Period less the Projected Balance Sheet Insurance VIF in respect of the Dynamic Defined Block at the end of such Accounting Period (after the notional addition of such Additional Policies in accordance with paragraph (b) of Step 2) (the excess (if any) of the Available IL Loan Principal over the Applied Available IL Loan Principal being the “**Remaining IL Loan Principal**”); and

(C) perform the calculations in Step 3 set out below.

(ii) If it is not, the VIF Calculation Agent will:

(A) set aside the lower of the Insurance Spread in respect of such Annual Determination Date and the Annual Recourse Insurance Cashflow Amount (the “**Funded Insurance Spread**”); and

(B) shall notify the General Partner and make the calculations in (d) below.

(d) If there is an Annual Recourse Cashflow Savings Amount on the current Annual Determination Date and the General Partner directs, in a Savings Surplus Election, that such amount be made available, the VIF Calculation Agent will determine whether, if, after (x) notionally adding all Additional Policies which were entered into in prior Accounting Periods which have not previously been notionally added to the Dynamic Defined Block pursuant to Step 2 paragraph (b)(ii) above (or actually added on a prior Annual Determination Date), (y) notionally applying the Available IL Loan Principal in repaying the IL Loan and (z) notionally applying the Annual Recourse Cashflow Savings Amount (less any amount of the Savings Funded Insurance Overpaid Spread) (the “**Available SLLPI Principal**”) in making a distribution of the SLLPI Loan Reduction Profit Amount, the Projected Balance Sheet Insurance VIF in respect of the Dynamic Defined Block at the end of such Accounting Period (after the notional addition of such Additional Policies and notional payments as aforesaid) is equal to or more than the IL Loan Account Opening Balance in respect of the Relevant Accounting Period less the sum of the Available SLLPI Principal and Available IL Loan Principal.

(i) If it is, the VIF Calculation Agent will:

(A) set aside the Savings Spread and any balance on the Missed Spread Account in respect of such Annual Determination Date out of the Annual Recourse Savings Cashflow Amount (the amount so set aside being the “**Funded Savings Spread**”);



- (B) determine the amount of the Available SLLPI Principal which is required to be paid as partial amortisation (the “**Applied Available SLLPI Principal**”) (provided that no such partial amortisation will be paid if the procedures set out below result in a Full Amortisation Event), being the sum of the IL Loan Account Opening Balance in respect of the Relevant Accounting Period less the Projected Balance Sheet Insurance VIF in respect of the Dynamic Defined Block at the end of such Accounting Period (after the notional addition of such Additional Policies) less the Applied Available IL Loan Principal (the excess (if any) of the Available SLLPI Principal over the Applied Available SLLPI Principal being the “**Remaining SLLPI Principal**”); and
  - (C) perform the calculations in Step 3 set out below.
- (ii) If it is not or if the General Partner does not direct the Annual Recourse Savings Cashflow Amount to be made available for the above purposes in a Savings Surplus Election, a “**Full Amortisation Event**” will be deemed to have occurred.

### Step 3

Provided the above procedures do not result in a Full Amortisation Event, the VIF Calculation Agent will determine the Stressed VIF (being the aggregate of the Stressed Insurance VIF and the Stressed Savings VIF) in respect of the Dynamic Defined Block (including, if any, any Additional Policies notionally added under Step 2 described above).

- (a) If the Stressed VIF is greater than or equal to the IL Loan Account Opening Balance in respect of the Relevant Accounting Period less the sum of the Applied Available IL Loan Principal and Applied Available SLLPI Principal (if applicable) determined on such Annual Determination Date, any Additional Policies which may have been notionally added to the Dynamic Defined Block pursuant to Step 2, if any, will be added with effect from the Accounting Date at the end of the Relevant Accounting Period and no further Additional Policies, if any, will be notionally added to the Dynamic Defined Block in respect of such Annual Determination Date and the next step shall be Step 5 below;
- (b) If the Stressed VIF is less than the IL Loan Account Opening Balance in respect of the Relevant Accounting Period less the sum of the Available IL Loan Principal and Available SLLPI Principal (if applicable) determined on such Annual Determination Date, Additional Policies that have not already been included (or notionally included) in the Dynamic Defined Block (if any), which were entered into in the earliest Accounting Period (after the Accounting Period ending in March 2007) in respect of which Additional Policies have not been added (or notionally added) to the Dynamic Defined Block (the “**S3 Source Period**”) will be notionally added to the Dynamic Defined Block (and the calculation made in this paragraph (b) shall be repeated with respect to the Dynamic Defined Block as if such Additional Policies were included). The process of notionally adding Additional Policies from successive S3 Source Periods and then recalculating will be repeated until either:
  - (i) the Stressed VIF in respect of the Dynamic Defined Block at the end of the Relevant Accounting Period (after the notional addition of Additional Policies pursuant to this paragraph or Step 2 above on the Accounting Date at the end of such Relevant Accounting Period) is greater than or equal to the IL Loan Account Opening Balance in respect of the Relevant Accounting Period less the sum of the Applied Available IL Loan Principal and Applied Available SLLPI Principal (if applicable) determined on such Annual Determination Date. Once this test is satisfied, the Additional Policies notionally added will be deemed to be added to and included in the Dynamic Defined Block on the Accounting Date falling at the end of the Relevant Accounting Period, and no further Additional Policies need be added to the Dynamic Defined Block in

respect of such Annual Determination Date, and the next step shall be Step 5 below;  
or

- (ii) after notionally adding all Additional Policies which were entered into in the Relevant Accounting Period and all prior Accounting Periods (after the Accounting Period ending in March 2007) which have not previously been notionally added to the Dynamic Defined Block pursuant to this paragraph or Step 2 above on such Annual Determination Date (or actually added in respect of a prior Annual Determination Date), the VIF Calculation Agent determines that the Stressed VIF in respect of the Dynamic Defined Block at the end of the Relevant Accounting Period (after the notional addition of any Additional Policies pursuant to this paragraph or Step 2 above on such Annual Determination Date) is less than the IL Loan Account Opening Balance in respect of the immediately preceding Accounting Period less the sum of the Applied Available IL Loan Principal and Applied Available SLLPI Principal (if applicable) determined on such Annual Determination, in which event the VIF Calculation Agent will make the calculations in Step 4 below.

For these purposes, Stressed VIF is determined on the same basis as Projected Insurance VIF and Projected Savings VIF for the Insurance Contracts and the Savings Contracts in the Dynamic Defined Block on the basis of the Relevant Insurance Assumptions and Relevant Savings Assumptions (as applicable) adjusted to reflect the following:

- (a) a fall, as at the valuation date, of 30 per cent. in the value of equity and property assets in the unit linked funds;
- (b) a reduction of 0.75 per cent. in the assumption for the future rate of growth in unit linked funds;
- (c) the lapse and paid up rates for life assurance policies are multiplied by a factor of 250 per cent., subject to a maximum value of 35 per cent. *per annum*;
- (d) the lapse and paid up rates for pension policies are multiplied by a factor of 300 per cent., subject to a maximum value of 35 per cent. *per annum*;
- (e) an increase of 8 per cent. in mortality rate assumptions (excluding those used in the calculation of technical reserves);
- (f) where there is no mortality risk on life assurance business, an increase of 8% in critical illness rate assumptions (excluding those used in the calculation of technical reserves).

The “**Stressed VIF**” will equal the VIF calculated under the above scenario multiplied by 95%.

#### **Step 4**

If this Step 4 is applicable, the VIF Calculation Agent will calculate whether, if after notionally adding all Additional Policies which were entered into in the Relevant Accounting Period and all prior Accounting Periods (after the Accounting Period ending in March 2007) pursuant to Steps 2 and 3 above on such Annual Determination Date (or actually added in respect of a prior Annual Determination Date), the Stressed VIF in respect of the Dynamic Defined Block at the end of the Relevant Accounting Period (after the notional addition of such Additional Policies) is equal to or more than the IL Loan Account Opening Balance in respect of the immediately preceding Accounting Period less the sum of the Available IL Loan Principal and the Available SLLPI Principal.

- (i) If it is, the VIF Calculation Agent will:

- (A) determine the amount of the Remaining IL Loan Principal which is required to be paid as partial amortisation (the “**Applied Remaining IL Loan Principal**”), being the lesser of the Remaining IL Loan Principal and such amount as results in the Stressed VIF (after the notional addition of such Additional Policies) being equal to or greater than the IL Loan Account Opening Balance in respect of the Relevant Accounting Period less the sum of the Applied Available IL Loan Principal and the Applied Available SLLPI Principal;
  - (B) subject to a Savings Surplus Election being made, determine the amount of the Remaining SLLPI Principal which is required to be paid as partial amortisation (the “**Applied Remaining SLLPI Principal**”), being the lesser of the Remaining SLLPI Principal and such amount as results in the Stressed VIF (after the notional addition of such Additional Policies) being equal to or greater than the IL Loan Account Opening Balance in respect of the Relevant Accounting Period less the sum of the Applied Available IL Loan Principal, the Applied Available SLLPI Principal and the Applied Remaining IL Loan Principal; and
  - (C) the Additional Policies notionally added in making the calculations to achieve the result in this Step 4 (including the Additional Policies notionally added pursuant to Steps 2 and 3) will be deemed to be added to and included in the Dynamic Defined Block on the Accounting Date falling at the end of the Relevant Accounting Period, and no further Additional Policies need be added to the Dynamic Defined Block in respect of such Annual Determination Date.
- (ii) If it is not (i) no Additional Policies will be added under this paragraph and (ii) a “**Full Amortisation Event**“ will be deemed to have occurred.

#### Step 5

Provided the above procedures do not result in a Full Amortisation Event, then:

- (a) the Additional Policies determined to be added to the Dynamic Defined Block will be deemed to have been added thereto on the Accounting Date falling at the end of the Relevant Accounting Period (and, for the avoidance of doubt, surplus arising on them in the Relevant Accounting Period will not be included in the Annual Recourse Cashflow Amounts); and
- (b) to the extent that any partial amortisation is determined by the above procedures, the aggregate amount of such partial amortisation which is used to repay the IL Loan and any SLLPI Loan Reduction Profit Amount will be debited to the IL Loan Account in accordance with the terms of the Limited Partnership Agreement, with the amount to be applied in repaying the IL Loan being a repayment of that part and the amount by which the IL Loan Account Balance is debited to reflect any SLLPI Loan Reduction Profit Amount writing down the IL Loan Account Balance and thereby reducing the amount payable in respect of the IL Loan (such amount being first credited to the Deficit Account, then debited therefrom and credited to the SLLP Account and debited therefrom in accordance with the procedures described under “*Terms and Conditions of the Insurance-linked Loan and the Savings-Linked Limited Partnership Interest – Operation of the Capital Accounts, Distributions of Profit and Payments in respect of the IL Loan*”); and
- (c) if the above procedures result in a Full Amortisation Event, the Additional Policies notionally added for the purpose of determining whether such an event has occurred will not be added to the Dynamic Defined Block and no further Additional Policies may be added.

The VIF Calculation Agent will, unless a Full Amortisation Event has occurred, retain data in respect of policies originated after 31 March 2007 to enable it to calculate Projected Surplus and Projected

VIF (as well as the required components of Projected VIF) for the Additional Policies which may be added to the Dynamic Defined Block under the procedures set out above.

For the avoidance of doubt, whenever Additional Policies entered into in a Source Period or S3 Source Period are notionally included in the Dynamic Defined Block, all Additional Policies satisfying the Eligibility Criteria and entered into in that Source Period or S3 Source Period will be notionally included in the Dynamic Defined Block at the same time.

## THE BASE CASE

The projected Annual Recourse Cashflow Amounts have been projected for each of the 25 annual (or, in the case of the first period, nine-month) periods ending in March (each such period, a “**Calculation Period**”) to March 2032. These projections together with the Stress Scenarios projections have been prepared by BoI Life using actual data as at 30 June 2007 and applying the Base Case Assumptions or Stress Scenario assumptions, as applicable, summarised below under “- *Base Case Assumptions used in projecting Dynamic Defined Block surplus amounts*” and reported on by Watson Wyatt as set out under “*Actuaries’ Report*” below.

### BASE CASE

The Base Case has been calculated on the basis of data as at 30 June 2007 and the Base Case Assumptions. (See “*The Base Case - Base Case Assumptions used in projecting Dynamic Defined Block surplus amounts*” below.)

The Base Case (as defined below) projections included in the Actuaries’ Report 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 the control of BoI Life. 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.

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

The Base Case Assumptions relating to mortality, morbidity and discontinuance (being those relating to persistency rates and paid-up rates) (all as described below) represented an estimate, as at 30 June 2007 (the “**Base Case Assumptions Date**”) of BoI Life with respect to the Dynamic Defined Block (to the extent BoI Life has recorded experience in relation to these separately) made in accordance with actuarial practice which takes account of the historic experience of BoI Life and, in the case of mortality and morbidity, of information relating to the life assurance industry in respect of comparable business to the Dynamic Defined Block generally available to BoI Life as at the Base Case Assumption Date.

The Base Case Assumptions relating to investment returns 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 below) were, as at the Base Case Date, a projection of the Dynamic Defined Block Annual Recourse Cashflow Amounts, Annual Recourse Insurance Cashflow Amounts and Annual Recourse Savings Cashflow Amounts in the current and subsequent Calculation Periods as at the Base Case Date having regard to the conditions and the Dynamic Defined Block at the time as at which the determination was made and made in accordance with actuarial practice.

The Base Case Assumptions relating to taxation represented, at the Base Case Date, an estimate of the taxation to be borne by the Dynamic Defined Block and the assets backing the Dynamic Defined Block as at the Base Case Assumptions Date.

The other Base Case Assumptions not referred to above (including those relating to reserving), each as described, summarised or referred to in this Prospectus and in each case as at the Base Case Date,

were an estimate made for the purpose of projecting the Dynamic Defined Block Annual Recourse Cash Flow Amounts, Annual Recourse Insurance Cashflow Amounts and Annual Recourse Savings Cashflow Amounts in the current and subsequent Calculation Periods, and made in accordance with actuarial practice as at the Base Case Date.

- (a) In (and subject to the terms of) the Actuaries' Report, Watson Wyatt considers the Base Case Assumptions to be reasonable at the date as at which they were made (see "*Actuaries' Report*" below).
- (b) The Base Case Assumptions (which are long-term assumptions) are considered by Watson Wyatt in its Actuaries' Report (subject to the terms set out therein) to be reasonable at the date of this Prospectus, taken as a whole over the period over which Dynamic Defined Block Annual Recourse Cashflow Amounts, Annual Recourse Insurance Cashflow Amounts and Annual Recourse Savings Cashflow Amounts is projected to arise; reference should be made to paragraphs 5.6 to 5.8 (inclusive) of the Actuaries' Report for the effect of developments between 30 June 2007 and 30 September 2007.
- (c) The scenarios set out under "*Stress Scenarios*" under "*Actuaries Report*" 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 BoI Life, Watson Wyatt, Bank of Ireland, the General Partner, the Issuer, Ambac, the Lead Managers 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 BoI Life, Watson Wyatt, Bank of Ireland, the General Partner, the Issuer, Ambac, the Lead Managers or any of their respective affiliates or any other person that the projections of Dynamic Defined Block Annual Recourse Cashflow Amounts, Annual Recourse Insurance Cashflow Amounts and Annual Recourse Savings Cashflow Amounts, Projected Insurance Surplus, Projected Savings Surplus, Projected VIF, Projected Insurance VIF or Projected Savings VIF over this period or the projection of Dynamic Defined Block Annual Recourse Cashflow Amounts, Annual Recourse Insurance Cashflow Amounts, Annual Recourse Savings Cashflow Amounts, Projected Insurance Surplus or Projected Savings Surplus in respect of any particular Calculation Period, will be achieved.**

None of BoI Life, Watson Wyatt, Bank of Ireland, the General Partner, the Issuer, Ambac, the Lead Managers or any of their respective affiliates or any other person undertakes any obligation to update any forward looking statement contained herein.

## BASE CASE ASSUMPTIONS USED IN PROJECTING DYNAMIC DEFINED BLOCK SURPLUS AMOUNTS

The principal assumptions used in the projections of the Dynamic Defined Block Annual Recourse Cashflow Amounts, Annual Recourse Insurance Cashflow Amounts and Annual Recourse Savings Cashflow Amounts in the Base Case are as follows and as set out in "Actuaries' Report" (collectively, the "Base Case Assumptions").

The Base Case Assumptions underlying the Dynamic Defined Block at June 2007 were as follows

### Unit-Linked Life Assurance

With regard to the unit-linked life assurance contracts, it is assumed that the valuation reserve will be the sum of the unit reserve and the non-unit cash reserve, where the unit reserve will be the number of units allocated to the relevant policies at the valuation date, multiplied by the current unit bid price.

The non-unit cash reserve will be calculated by projecting expected income and expenditure until the next review date of contracts. The projection term varies by product grouping, and can be one of: 20 years, to age 120 or until the unit reserve equals zero. Successive summations of the discounted value from the valuation date of the net outflows will be calculated. The non-unit cash reserve is assumed to be the maximum value of such summations.

The Base Case assumes no withdrawals for unit-linked life assurance contracts in determining the non-unit cash reserves.

The mortality table used for the Base Case analysis is 80 per cent. of AM80 / AF80 ultimate. Rates are multiplied by 80 per cent. for non-smokers and by 160 per cent. for smokers; however, old unit-linked contracts sold through the Broker/DSF Channel and single premium contracts do not adjust for smokers or non-smokers. Other benefits are assumed to be as charged.

Renewal expenses are assumed to inflate at 5.0 per cent. *per annum* and full provision is made for outstanding initial commission and renewal commission.

The valuation interest rate is assumed to be 4.25 per cent. *per annum* gross and the asset growth rate is assumed to be 5.0 per cent. *per annum* gross.

In calculating the Projected VIF of the unit linked life assurances, the unit growth rate is assumed to be 6.25 per cent. *per annum* and mortality and lapse rates are set having regard to the current experience of the business.

### Unit-Linked Pensions

With regard to unit-linked pensions, it is assumed that the valuation reserve will be the sum of the unit reserve and the non-unit cash reserve, where the unit reserve is the number of units allocated to policies at the valuation date multiplied by the current unit bid price.

The non-unit cash reserve will be calculated by projecting expected income and expenditure over the future term of the contracts. Successive summations of the discounted value from the valuation date of the net outflows will be calculated. The non-unit cash reserve is assumed to be the maximum value of such summations.

The Base Case assumes no withdrawals for unit-linked pension assurance contracts in determining the non-unit cash reserves.

Renewal expenses are assumed to inflate at 5.0 per cent. *per annum* and full provision is made for outstanding initial commission and renewal commission.

The mortality table used for the Base Case analysis is 80 per cent. of AM80 / AF80 ultimate. Rates are multiplied by 80 per cent. for non-smokers and by 160 per cent. for smokers; however, single premium contracts do not adjust for smokers or non-smokers.

The valuation interest rate is assumed to be 4.50 per cent. *per annum* gross and the asset growth rate is assumed to be 5.00 per cent. *per annum* gross.

In calculating the Projected VIF of the unit linked pensions, the unit growth rate is assumed to be 6.25 per cent. *per annum* and mortality and lapse rates are set having regard to the current experience of the business.



## STRESS SCENARIOS

The Base Case set out in “*The Base Case*” above is based upon the Base Case Assumptions (see above). The projection of the Dynamic Defined Block Annual Recourse Cashflow Amounts, Annual Recourse Insurance Cashflow Amounts and Annual Recourse Savings Cashflow Amounts under the Base Case Assumptions can be used to calculate certain coverage ratios.

BoI Life has undertaken a number of specific stress tests in relation to the performance of the Dynamic Defined Block (in-force only) in specific adverse scenarios. Watson Wyatt has also reviewed these stress tests.

The Annual Recourse Cashflow Amount in respect of a period is the amount projected in relation to data available at 30 June 2007 and on the relevant Base Case Assumptions (or, in the case of the stress case analysis, as amended by the relevant Stress Scenario Assumption(s)) to be the Annual Recourse Cashflow Amount projected to emerge in respect of each such period. The aggregates of these projected Annual Recourse Cashflow Amounts as set out have been discounted to 30 June 2007 at discount rates of 1 per cent. *per annum*, 2 per cent. *per annum* and 8 per cent. *per annum*. These figures are not an estimate of the cost of financing.

The Base Case Assumptions together with the alternatives to the Base Case Assumptions set out in “*Actuaries’ Report*” (the “**Stress Scenario Assumptions**”) represent possible scenarios designed to illustrate certain characteristics of the liabilities associated with the policies in the Dynamic Defined Block and are not intended to be projections, estimates, forecasts or forward-looking statements. The table outlining the Stress Scenarios in the Actuaries’ Report has been developed by fixing the Base Case Assumptions other than the ones corresponding to the particular Stress Scenario Assumptions and by applying that Stress Scenario Assumption to determine its effect on the amount projected as the Annual Recourse Cashflow Amount in respect of each future Calculation Period. The Stress Scenario Assumptions do not represent a complete list of factors that may affect the projection of Annual Recourse Cashflow Amount but rather indicate those factors that are likely to affect the performance of the Dynamic Defined Block. In addition, the range of possible outcomes with respect to each Stress Scenario Assumption and combinations of Stress Scenario Assumptions set out in “*Actuaries’ Report*” do not purport to be a comprehensive set of possible results for the policies, are not based on any view of BoI Life, Bank of Ireland, the General Partner, the Limited Partnership, the Issuer, Ambac, the Lead Managers 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 tables in the Actuaries’ Report are 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 Dynamic Defined Block will vary from the Base Case Assumptions and from the Stress Scenario Assumptions and the possible scenarios represented by the tables. Some of the principal factors that could cause the actual Annual Recourse Cashflow Amount to differ materially from such scenarios are described in “*Risk Factors*” and “*Description of the Dynamic Defined Block - Certain Risks in ascertaining Projected VIF - Principal factors contributing to the emergence of the Annual Recourse Cashflow Amount*” and “*- Principal Risks to the Emergence of the Annual Recourse Cashflow Amount*” above.

## ACTUARIES' REPORT

The Actuaries' Report has been produced at the Issuer's request and is included in the form and context in which it is included with the consent of Watson Wyatt Limited.

24 October 2007

New Ireland Assurance Company plc  
9 – 11 Dawson Street  
Dublin 2  
Ireland

Avondale Securities S.A.  
7 Val Ste Croix  
L-1371 Luxembourg

Goldman Sachs International  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
United Kingdom

Lehman Brothers International (Europe)  
25 Bank Street  
London E14 5LE  
United Kingdom

Dear Sirs

### Actuarial opinion in connection with the issue of Floating Rate Emergence Offset Notes

#### 1. Introduction

1.1 Watson Wyatt Limited has been engaged by New Ireland Assurance Company plc, Avondale Securities S.A., Goldman Sachs International and Lehman Brothers International (Europe) (“you”) to provide actuarial opinions on certain matters in connection with the proposed issue by Avondale Securities S.A. of Floating Rate Emergence Offset Notes (the “Notes”) backed by a loan to and a limited partnership interest in BOI VIF Funding (No.1) LP that reference the surplus arising on unit-linked contracts written at New Ireland Assurance Company plc, trading as Bank of Ireland Life (“BoI Life”). This letter, which with our consent to its form and context is to be included in the prospectus dated 24 October 2007 (the “Prospectus”), sets out the scope of the work that we have been engaged to undertake and summarises the results of our work.

1.2 Terms defined in the Prospectus have the same meaning when used in this letter.

#### 2. Background

2.1 The primary objective of the issuance of the Notes is to increase the Equity Core Tier 1 capital of Bank of Ireland (“BoI”) through the monetisation of the value in-force (“VIF”) at BoI’s subsidiary, BoI Life. Currently, the VIF arising on contracts of insurance is deducted by the Irish Financial Services Regulatory Authority (the “Financial Regulator for Ireland”) from BoI’s Core Tier 1 capital due to its intangible nature.

2.2 The monetisation will be in respect of a defined block of business, which may be increased from time to time in accordance with a defined set of rules. This defined block of business as adjusted from time to time is referred to as the Dynamic Defined Block.

2.3 BoI Life has prepared projections of future profit flows (“FPF”) 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 Stress Scenarios analysis.

2.4 We have had no responsibility for the selection of the sensitivities used for the Stress Scenarios analysis.

2.5 Sections 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**

3.1 The Base Case Assumptions (which are set out under the heading "*The Base Case– Base Case Assumptions Used In Projecting Dynamic Defined Block Surplus Amounts*" in the Prospectus), which were determined by BoI Life and used in projecting the Dynamic Defined Block FPF, have been set having regard to the operating experience of BoI Life, 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 30 June 2007.

3.2 Most of the operational experience analysed related to periods up to and including 30 June 2006, though persistency assumptions also reflect recent persistency experience to 30 June 2007. We have also taken into account our previous review of the work carried out by the management of BoI Life in analysing the sources of embedded value profit by reference to operational experience to 31 March 2007.

3.3 We have reviewed the Base Case Assumptions by comparing them to the operating experience, investment conditions as at 30 June 2007 (subject to the adjustments referred to above) and having regard to our knowledge of the Irish life insurance market generally. On the basis of the work performed, we have concluded that the Base Case Assumptions (which are long-term assumptions) are, in our opinion, reasonable both as and when made as well as taken as a whole over the period over which Dynamic Defined Block FPF is projected to arise.

3.4 Although the Prospectus includes discounted values of the projected FPFs, we give no opinion on the rate of discount used. We agree with BoI Life, however, that, for the purposes of comparing the FPFs with the amount of the loan, it would be appropriate to discount future projected FPFs at the rate that is the effective cost of financing less interest on the proceeds of the loan.

### **4. Modelling system**

4.1 The projections of the FPF of the Dynamic Defined Block prepared by BoI Life are derived from a small number of computer systems, including proprietary actuarial projection systems (as programmed by BoI Life) and spreadsheet models. We have carried out the following checks:

- Independently reproduced results for 8 individual policies from the principal product groups across the four policy administration systems used by BoI Life to maintain records relating to the policies in the Dynamic Defined Block. Additionally we have taken some comfort from our annual review of reported results in which we have tested projection results for other sample policies over a number of years;
- Examined the comparisons performed by BoI Life management of the policy data used in the models with the in-force policy data at 30 June 2007 and also with the data in the statutory returns made by BoI Life as at 31 December 2006 to the Financial Regulator for Ireland; and
- Reviewed the spreadsheet model used.

4.2 Based on this work we have concluded that the modelling systems and approaches used are appropriate for the purpose of projecting Dynamic Defined Block FPF.

## 5. Results

5.1 In addition to the checks noted in Section 4 above, we have for the Base Case and the Stress Scenarios analyses as at 30 June 2007:

- Checked that the assumptions were input correctly for the Base Case and the Stress Scenarios analyses as outlined in Appendix 1 of this Report (and hereby confirm that such assumptions were input correctly, subject to the impact of any incorrect assumptions falling within the materiality limit discussed in paragraph 5.2);
- Examined aggregate net-of-tax projection results produced by BoI Life for reasonableness as outlined in Appendix 2 of this Report; and
- In the Stress Scenarios analyses, checked that the changes in the components of net-of-tax FPF as produced by BoI Life and as outlined in Appendix 2 of this Report are consistent with the changes in the assumptions (and hereby confirm that such changes are so consistent, subject to the impact of any incorrect assumptions falling within the materiality limit discussed in paragraph 5.2).

5.2 In reviewing the numbers prepared by BoI Life, we have used an overall materiality limit of 1% of the VIF in deciding whether qualification or amplification of our opinion is required in relation to the calculations. In the course of our review, we have not identified any issue or collection of issues that in aggregate exceed this materiality limit. In our opinion, the projections of FPF for the Base Case and the net-of-tax projections produced by BoI Life for the Stress Scenarios as set out in Appendix 2 of this Report are reasonable subject to the contents of paragraphs 5.3 and 5.4.

5.3 We note that there are some approximations within the model relating to future alterations expected to be made to policies within the Dynamic Defined Block. While these approximations do not impact on the VIF as calculated by BoI Life, we would expect them to lead to a minor divergence between the Annual Recourse Cashflow Amount as defined in the Prospectus and the surplus expected to be reported by BoI Life in its annual financial statements.

5.4 We have been informed that the model operated by BoI Life for the purpose of calculating VIF in relation to the Dynamic Defined Block does not incorporate calculations relating to reinsurance of mortality risks. This applies to both the payment of reinsurance premiums to and the receipt by BoI Life of payments from the reinsurer in respect of claim events. It is our opinion that this omission does not materially over-estimate the projections of FPF for the base case or the Stress Scenario analyses, and may under-estimate the projections of FPF for certain scenarios where mortality experience is assumed to be worse than under the base case assumptions.

5.5 We can confirm that the tables of results in Appendix 2 of this Report agree to the projection model output for the Dynamic Defined Block which we have examined.

### *Developments between 30 June 2007 and 30 September 2007*

5.6 We have been informed by BoI Life that, since 30 June 2007 (the Base Case Date), adopting a 'roll-forward' method taking account of the following likely main variances (and in particular not quantifying other, typically smaller, variances):

- reductions in Projected VIF as a result of movements in investment markets;

- that amount of surplus (which would form part of the Annual Recourse Cashflow Amount) which was expected to have arisen on the Dynamic Defined Block since the Base Case Date;
- the unwind of the discount rate on the VIF asset; and
- assuming that new business written since 30 June 2007, which would be eligible to be included in the Dynamic Defined Block as Additional Policies, was included in accordance with the procedures set out under "Inclusion of Additional Policies in Dynamic Defined Block"

there would be no material change (i.e., not more than 2.5%) in the projected combined insurance VIF and savings VIF (calculated using an 8% discount rate) as at 30 September 2007.

5.7 Due to the limited time available, we have not had the opportunity to review in detail all of BOI Life's calculations, but we have carried out the following checks:

- We compared the investment market performance effect calculated by BoI Life to the results of the relevant Stress Scenarios;
- We have reviewed the emergence of surplus by reference to the surplus projected to emerge during the same period under the Base Case;
- We have reviewed the unwinding of the discount rate on the opening VIF asset; and
- We assessed the Projected VIF of the new business sold between 30 June and 30 September by reference to past levels of profitability on unit-linked new business sold by BoI Life and also with regard to sales volumes since 30 June assuming an unchanged product profile.

5.8 Subject to the limitations of this 'roll-forward' method, we consider BoI Life's conclusion that there is unlikely overall to have been a material change (i.e., not more than 2.5%) in the projected combined insurance VIF and savings VIF (calculated using an 8% discount rate) as at 30 September 2007 to be reasonable.

## **6. Reliances and Limitations**

6.1 This Report has been prepared by Watson Wyatt Limited on behalf of New Ireland Assurance Company plc, Avondale Securities S.A., Goldman Sachs International and Lehman Brothers International (Europe) pursuant to an engagement letter dated 4 October 2007 to meet the specific purposes of the Directors of New Ireland Assurance Company plc, Avondale Securities S.A., Goldman Sachs International and Lehman Brothers International (Europe), and must not be relied upon for any other purpose. This Report has been prepared for use by persons technically competent in the areas covered and to the fullest extent permitted by law, Watson Wyatt Limited does not accept or assume responsibility to anyone other than New Ireland Assurance Company plc, Avondale Securities S.A., Goldman Sachs International and Lehman Brothers International (Europe) for its work or for the opinions it has formed. This document is based on information available to Watson Wyatt Limited at the date of the document and takes no account of subsequent developments after that date. Except with the written consent of Watson Wyatt Limited, this Report and any written or oral information or advice provided by Watson Wyatt Limited must not be modified, reproduced, distributed or communicated in whole or in part to any other person except as may be required by law. Any reference to Watson Wyatt Limited in any report, accounts or other published documents is not authorised without our prior written consent.

6.2 In our work we have relied on audited and unaudited information provided to us by BoI Life for periods up to and including 30 September 2007, and on information from public sources. In carrying out our work we have relied without independent verification upon the accuracy and

completeness of the data and information provided to us, both in written and oral form. We have also relied on the statement made by the Directors of BoI Life that the Directors of BoI Life know of no other information or data which ought to have been made available to Watson Wyatt Limited that would materially affect the opinion set out herein. 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.

6.3 We have not considered the possible financial implications arising from the introduction of new regulatory reporting requirements which may, for example, increase or reduce the level of capital support required to sustain the business or constrain the way in which the assets are invested.

6.4 Draft versions of any reports, opinions, conclusions or other information supplied by us must not be relied upon by any person for any purpose.

6.5 We have briefly reviewed the methodology and assumptions used by BoI Life to establish their cash reserves as at 30 June 2007 and consider them to be consistent with those for 31 December 2006. We have not reviewed the discount rate or tax assumptions and related methodology used by BoI Life.

6.6 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.

6.7 With the exception of the work described in paragraphs 5.6 to 5.8, we have not considered the effects of any changes in investment conditions that have occurred since 30 June 2007.

6.8 In developing projections of the FPF, numerous assumptions about future experience have been made by BoI Life. Most of these factors are beyond BoI Life's control. Actual future experience will differ from the assumptions made for the Base Case, and hence actual future FPF will differ from that projected, perhaps materially. The Stress Scenarios 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.

6.9 The limitations on liability contained in our engagement letter dated 4 October 2007 apply to this letter (including, without limitation, a financial cap on aggregate liability).

Yours sincerely

Watson Wyatt Limited

**Appendix 1: Summary of assumption changes for Stress Scenarios**

Stress Scenario number	Summary of assumption changes relative to the Base Case Assumptions as described in the section “Base Case Assumptions Used in Projecting Dynamic Defined Block Surplus Amounts” in the Prospectus
Scenario 1	<p>Increase of 25% in mortality rate assumptions on both the reserving and VIF bases, including an immediate re-calculation of non-unit reserves.</p> <p>Where there is no mortality risk on life assurance business, an increase of 25% in critical illness rate assumptions on both the reserving and VIF bases, including an immediate re-calculation of non-unit reserves.</p>
Scenario 2	The lapse and paid-up rates are multiplied by a factor of 250%.
Scenario 3	A fall, as at the valuation date, of 25% in the value of equity and property assets in the unit-linked funds.
Scenario 4	<p>A fall, as at the valuation date, of 25% in the value of equity and property assets in the unit-linked funds.</p> <p>A reduction of 1% in the assumption in the VIF basis for the future rate of growth in unit-linked funds.</p>
Scenario 5	A reduction of 1% in the assumption in the VIF basis for the future rate of growth in unit-linked funds.
Scenario 6	<p>For life assurance business, the lapse rates are multiplied by a factor of 250%.</p> <p>For pension business it is assumed that policies become paid-up instead of lapsing, and that the paid-up rates are 250% of the combined lapse and paid-up rates used in the base scenario.</p>
Scenario 7	<p>Increase of 37.5% in mortality rate assumptions on both the reserving and VIF bases, including an immediate re-calculation of non-unit reserves.</p> <p>Where there is no mortality risk on life assurance business, an increase of 37.5% in critical illness rate assumptions on both the reserving and VIF bases, including an immediate re-calculation of non-unit reserves.</p>
Scenario 8	The lapse and paid-up rates are multiplied by a factor of 325%.
Scenario 9	A fall, as at the valuation date, of 37.5% in the value of equity and property assets in the unit-linked funds.
Scenario 10	<p>A fall, as at the valuation date, of 37.5% in the value of equity and property assets in the unit-linked funds.</p> <p>A reduction of 1.5% in the assumption in the VIF basis for the future rate of growth in unit-linked funds.</p>

Stress Scenario number	Summary of assumption changes
Scenario 11	A reduction of 1.5% in the assumption in the VIF basis for the future rate of growth in unit-linked funds.
Scenario 12	<p>For life assurance business, the lapse rates are multiplied by a factor of 325%.</p> <p>For pension business it is assumed that policies become paid-up instead of lapsing, and that the paid-up rates are 325% of the combined lapse and paid-up rates used in the base scenario.</p>
Scenario 13	<p>A fall, as at the valuation date, of 25% in the value of equity and property assets in the unit-linked funds.</p> <p>A reduction of 1% in the assumption in the VIF basis for the future rate of growth in unit-linked funds.</p> <p>The lapse and paid-up rates are multiplied by a factor of 250%.</p> <p>Increase of 25% in mortality rate assumptions on both the reserving and VIF bases, including an immediate re-calculation of non-unit reserves.</p> <p>Where there is no mortality risk on life assurance business, an increase of 25% in critical illness rate assumptions on both the reserving and VIF bases, including an immediate re-calculation of non-unit reserves.</p>
Scenario 14	<p>A fall, as at the valuation date, of 20% in the value of equity and property assets in the unit-linked funds.</p> <p>A reduction of 0.75% in the assumption in the VIF basis for the future rate of growth in unit-linked funds.</p> <p>The lapse and paid-up rates are multiplied by a factor of 200%.</p> <p>Increase of 15% in mortality rate assumptions on both the reserving and VIF bases, including an immediate re-calculation of non-unit reserves.</p> <p>Where there is no mortality risk on life assurance business, an increase of 15% in critical illness rate assumptions on both the reserving and VIF bases, including an immediate re-calculation of non-unit reserves.</p>
Scenario 15	<p>A fall, as at the valuation date, of 30% in the value of equity and property assets in the unit-linked funds.</p> <p>A reduction of 1% in the assumption in the VIF basis for the future rate of growth in unit-linked funds.</p> <p>The lapse and paid-up rates are multiplied by a factor of 200%.</p> <p>Increase of 10% in mortality rate assumptions on the VIF basis.</p> <p>Where there is no mortality risk on life assurance business, an increase of 10% in critical illness rate assumptions on the VIF basis.</p>



Scenario 16	<p>A fall, as at the valuation date, of 30% in the value of equity and property assets in the unit-linked funds.</p> <p>A reduction of 0.75% in the assumption in the VIF basis for the future rate of growth in unit-linked funds.</p> <p>The lapse and paid-up rates for life assurance policies are multiplied by a factor of 250%, subject to a maximum value of 35% p.a.</p> <p>The lapse and paid-up rates for pension policies are multiplied by a factor of 300%, subject to a maximum value of 35% p.a.</p> <p>Increase of 8% in mortality rate assumptions on the VIF basis.</p> <p>Where there is no mortality risk on life assurance business, an increase of 8% in critical illness rate assumptions on the VIF basis.</p>
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**Appendix 2: Summary of results for surplus and VIF calculations produced by BoI Life for the Base Case and Stress Scenarios**

1. The three tables of results set out below contain:
  - Insurance Contracts only;
  - Savings Contracts only; and
  - Combined results for Insurance Contracts and Savings Contracts.

The discount rate applied for the NPV calculation at 1% and 2% reflects what we have been informed is a possible range of rates for the Weighted Averages Spread Rate used to calculate, *inter alia*, Projected VIF. The discount rate applied for the NPV calculation at 8% reflects the rate applied by Bank of Ireland in its current annual accounts, and the rate used in the Base Case for determining Projected Balance Sheet Insurance VIF.

2. The first row of FPFs in each of tables 5 to 7 relates to surplus projected to emerge between 1 July 2007 and 31 December 2007, including the impact of any change in the size of non-unit reserves at the valuation date.
3. All other rows of FPFs in the tables 5 to 7 relate to surplus projected to emerge between 1 January and 31 December of the particular calendar year.
4. The FPFs projected for Stress Scenario 16 were calculated using relative assumption changes equating to those that will be applied in calculating the "Stressed VIF" referred to in the section of the Prospectus entitled "Inclusion of Additional Policies in the Dynamic Defined Block". The calculation of this "Stressed VIF" will equal the net present value of future FPFs multiplied by a factor of 95%. For consistency between the projected FPFs and the net present value amounts in the tables below, we have not adjusted the net present value amounts to include the application of this 95% factor.

## 5. Insurance Contracts

Cashflows for Scenario (€m)																	
Year	Base	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
H2 2007	48	6	52	42	42	48	52	-32	54	38	38	48	54	7	28	40	44
2008	81	69	76	70	70	80	76	68	72	64	64	80	72	62	63	60	60
2009	69	61	52	60	59	68	53	61	43	55	54	67	45	44	48	44	41
2010	59	54	36	51	50	58	37	54	27	47	46	57	29	32	36	33	28
2011	52	48	25	45	44	50	27	48	17	41	40	50	20	23	28	24	20
2012	45	42	18	39	38	44	20	43	11	36	34	43	14	16	21	18	14
2013	39	36	12	33	32	37	15	37	7	31	29	37	10	11	15	13	9
2014	33	31	9	29	28	32	12	31	4	26	25	31	8	8	12	10	6
2015	30	28	6	26	24	28	10	28	3	24	22	28	7	6	9	8	5
2016	27	25	5	23	22	25	9	25	2	21	19	24	6	4	7	6	4
2017	24	22	4	20	19	22	8	22	2	19	17	21	6	3	6	5	3
2018	21	20	3	18	17	20	7	20	1	17	15	19	5	2	5	4	2
2019	19	18	2	16	15	17	6	18	1	15	13	17	5	2	4	3	2
2020	17	16	2	14	13	15	6	16	1	13	11	14	4	1	3	2	1
2021	15	14	1	12	11	13	6	14	1	11	10	12	4	1	2	2	1
2022	13	12	1	11	10	11	5	12	0	10	8	11	4	1	2	2	1
2023	11	10	1	9	8	9	5	10	0	8	7	9	4	1	1	1	1
2024	9	9	1	8	7	8	5	9	0	7	6	8	4	0	1	1	0
2025	8	7	0	7	6	7	5	7	0	6	5	6	4	0	1	1	0
2026	6	5	0	5	4	5	4	5	0	4	4	4	4	0	1	1	0
2027	4	4	0	3	3	3	4	3	0	3	2	3	4	0	0	0	0
2028	3	3	0	3	2	3	4	3	0	3	2	2	4	0	0	0	0
2029	3	3	0	2	2	2	4	3	0	2	2	2	4	0	0	0	0
2030	2	2	0	2	2	2	4	2	0	2	1	2	3	0	0	0	0
2031	2	2	0	2	2	2	3	2	0	2	1	2	3	0	0	0	0

NPV to 31 Dec 2031 at discount rate i (€m)																	
1%	599	510	297	519	498	575	367	472	242	477	449	563	311	218	282	270	236
2%	566	479	288	490	471	544	350	441	237	450	425	533	298	211	272	261	229
8%	424	348	248	367	356	411	279	310	210	338	323	405	242	177	225	219	199

## 6. Savings contracts

Cashflows for Scenario (€m)																	
Year	Base	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
H2 2007	31	31	37	24	24	31	38	31	40	22	21	31	41	31	29	27	27
2008	56	56	58	46	46	55	61	56	57	42	41	55	62	47	49	45	48
2009	52	52	46	44	43	50	52	51	42	40	38	50	49	38	41	38	38
2010	51	50	37	43	42	49	44	50	31	40	38	48	38	31	36	33	30
2011	48	47	29	41	40	46	36	47	22	38	36	45	30	24	30	28	23
2012	43	43	22	38	36	42	30	43	16	35	33	41	23	19	24	23	17
2013	40	39	17	35	33	38	24	39	11	33	30	37	19	14	20	19	13
2014	37	36	14	32	31	35	21	36	8	30	28	33	16	11	16	15	10
2015	34	33	11	30	28	31	19	33	6	28	25	30	14	9	13	12	8
2016	31	31	8	27	25	29	17	30	5	26	23	28	13	7	11	10	6
2017	28	28	7	25	23	26	15	28	4	24	21	25	12	5	9	9	5
2018	26	26	6	24	22	24	15	26	3	22	19	23	11	4	8	7	4
2019	24	24	5	22	20	22	14	24	2	20	18	21	11	4	6	6	3
2020	22	22	4	20	18	20	13	22	2	19	16	19	10	3	5	5	2
2021	20	20	3	18	16	18	13	19	1	17	14	17	10	2	4	4	2
2022	16	16	2	14	13	14	12	16	1	14	11	13	10	2	3	3	1
2023	14	14	2	13	11	12	11	14	1	12	10	11	9	1	3	3	1
2024	12	12	2	11	10	11	11	12	1	11	9	10	9	1	2	2	1
2025	11	11	1	10	9	9	10	11	1	9	8	9	9	1	2	2	1
2026	10	10	1	9	7	8	10	9	1	8	7	8	8	1	2	1	1
2027	8	8	1	8	7	7	9	8	1	7	6	7	8	1	1	1	0
2028	7	7	1	7	6	6	9	7	0	6	5	6	8	0	1	1	0
2029	7	6	1	6	5	5	8	6	0	6	4	5	7	0	1	1	0
2030	6	6	0	5	4	5	8	6	0	5	4	4	6	0	1	1	0
2031	5	5	0	4	4	4	7	5	0	4	3	4	6	0	1	0	0

NPV to 31 Dec 2031 at discount rate i (€m)																	
1%	591	586	300	515	484	554	470	584	247	479	436	537	409	246	304	282	233
2%	550	546	288	479	451	517	439	544	239	444	406	502	384	237	290	270	224
8%	383	381	235	331	315	365	316	380	203	306	284	356	283	194	229	213	185

## 7. Combined Insurance Contracts and Savings Contracts

Cashflows for Scenario (€m)																	
Year	Base	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
H2 2007	79	37	89	66	66	78	89	-2	94	60	59	78	95	38	57	67	71
2008	137	125	133	117	116	136	137	124	129	106	104	135	135	109	113	106	108
2009	120	112	97	103	101	118	104	112	85	95	92	117	94	82	89	82	79
2010	110	104	72	95	92	107	81	105	57	87	84	106	67	62	72	66	58
2011	99	95	54	86	83	96	64	95	39	79	76	94	50	47	58	52	43
2012	89	85	40	77	74	85	50	86	26	71	67	84	37	34	45	41	31
2013	79	76	29	68	65	75	39	76	18	63	59	73	29	25	35	32	22
2014	70	67	22	61	58	66	33	67	13	57	53	64	24	19	28	25	16
2015	64	61	17	56	52	60	28	61	9	52	47	58	21	14	22	20	12
2016	57	55	13	50	47	54	25	55	7	47	42	52	19	11	18	16	9
2017	52	50	10	46	43	48	23	50	5	43	38	46	17	9	15	13	7
2018	47	46	8	42	39	44	21	46	4	39	35	42	16	7	12	11	6
2019	43	42	7	38	35	39	20	41	3	35	31	37	15	5	10	9	4
2020	39	38	5	34	31	35	19	37	2	32	28	33	15	4	8	7	3
2021	34	33	4	30	27	31	18	33	2	28	24	29	14	3	7	6	3
2022	28	28	3	25	22	25	18	27	2	23	20	24	14	3	5	5	2
2023	25	24	3	22	19	22	17	24	1	20	17	20	14	2	4	4	2
2024	22	21	2	19	17	19	16	21	1	18	15	18	13	2	3	3	1
2025	19	18	2	16	14	16	15	18	1	15	12	15	13	1	3	2	1
2026	15	15	1	14	12	13	14	15	1	13	10	12	12	1	2	2	1
2027	12	12	1	11	9	10	14	12	1	10	8	10	12	1	2	2	1
2028	11	10	1	10	8	9	13	10	1	9	7	8	11	1	1	1	1
2029	9	9	1	8	7	8	12	9	0	8	6	7	11	0	1	1	0
2030	8	8	1	7	6	7	11	8	0	7	5	6	10	0	1	1	0
2031	7	7	1	6	5	6	11	7	0	6	4	5	9	0	1	1	0

NPV to 31 Dec 2031 at discount rate I (€m)																	
1%	1190	1097	597	1034	982	1129	837	1056	489	956	885	1100	720	464	586	552	468
2%	1116	1025	577	969	922	1061	789	985	476	895	831	1035	681	447	562	530	454
8%	807	729	484	698	671	776	595	680	413	643	607	761	525	371	454	431	384

8. The table below re-formats the presentation of the base case FPFs on Insurance Contracts and Savings Contracts so that each row of FPFs corresponds to one of BoI's accounting years, with the exception of the first row which represents the period from 30 June 2007 to 31 March 2008, reflecting the Accounting Periods used for the purposes of the transaction.

<b>Cashflows for Base Case (€m)</b>				
<b>Time period</b>		<b>Projected Insurance Surplus</b>	<b>Projected Savings Surplus</b>	<b>Combined Projected Surplus on Insurance and Savings Contracts</b>
June 2007 -	March 2008	70	45	114
April 2008 -	March 2009	78	55	133
April 2009 -	March 2010	66	51	117
April 2010 -	March 2011	57	50	107
April 2011 -	March 2012	50	47	97
April 2012 -	March 2013	43	42	86
April 2013 -	March 2014	37	39	76
April 2014 -	March 2015	32	36	68
April 2015 -	March 2016	29	33	62
April 2016 -	March 2017	26	30	56
April 2017 -	March 2018	23	28	51
April 2018 -	March 2019	21	26	46
April 2019 -	March 2020	18	24	42
April 2020 -	March 2021	16	22	38
April 2021 -	March 2022	14	19	33
April 2022 -	March 2023	12	15	27
April 2023 -	March 2024	10	14	24
April 2024 -	March 2025	9	12	21
April 2025 -	March 2026	7	11	18
April 2026 -	March 2027	5	9	14
April 2027 -	March 2028	3	8	12
April 2028 -	March 2029	3	7	10
April 2029 -	March 2030	3	6	9
April 2030 -	March 2031	2	5	8
April 2031 -	March 2032	2	5	7

The table below summarises the NPV calculations for the Base Case as shown in tables 5, 6 and 7 above. The figures are based on the projected cashflows to 31 December 2031.

<b>Discount Rate</b>	<b>Insurance Contracts</b>	<b>Savings Contracts</b>	<b>Combined Insurance Contracts and Savings Contracts</b>
1%	€599 million	€591 million	€1,190 million
2%	€566 million	€550 million	€1,116 million
8%	€424 million	€383 million	€807 million

## 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 Global Notes. These terms and 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 (each as defined below).*

The €380,000,000 Class A-1 Floating Rate Emergence Offset Notes due 2032 (the “**Class A-1 Notes**”) and the €20,000,000 Class A-2 Floating Emergence Offset Rate Notes due 2032 (the “**Class A-2 Notes**”) and, together with the Class A-1 Notes, the “**Notes**”) of Avondale Securities S.A. (the “**Issuer**”) are constituted by the Trust Deed.

Under the Ambac Financial Guarantee, 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 Class A-1 Notes in accordance with the terms and conditions of the Ambac Financial Guarantee.

The Notes are secured obligations of the Issuer and security for the Notes is created by the Issuer Deed of Charge.

These Conditions include summaries of, and are subject to, the detailed provisions of, the Trust Deed (which includes the forms of the Notes) the Issuer Deed of Charge, the Agency Agreement and the other Transaction Documents. The following agreements, *inter alia*, have been entered into in relation to the Notes:

- (a) an agency agreement dated the Closing Date (the “**Agency Agreement**”) between the Issuer, the Note Trustee, the Principal Paying Agent, the other Paying Agents, the Registrar and the Agent Bank, under which 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;
- (b) an account bank agreement dated on or about the Closing Date (the “**Account Bank Agreement**”) between, *inter alios*, the Issuer, The Bank of New York as account bank (in such capacity, the “**Account Bank**”, which term shall include any successor account bank appointed pursuant to the terms of the Account Agreement) and the Security Trustee;
- (c) a liquidity facility agreement dated on or about the Closing Date (the “**Liquidity Facility Agreement**”) between, *inter alios*, the Issuer and HSBC Bank plc as Liquidity Facility Provider; and
- (d) a cash management agreement dated on or about the Closing Date (the “**Cash Management Agreement**”) between, *inter alios*, The Bank of New York as cash manager (in such capacity, the “**Issuer Cash Manager**”, which term shall include any successor cash manager appointed pursuant to the terms of the Cash Management Agreement), the Issuer and Security Trustee; and
- (e) an Issuer Corporate Services Agreement dated as of 7 September 2007 (the “**Issuer Corporate Services Agreement**”) between the Issuer and Structured Finance Management (Luxembourg) S.A. as Issuer Corporate Services Provider (the “**Issuer Corporate Services Provider**”), pursuant to which the Issuer Corporate Services Provider will provide to the Issuer certain services in connection with the day-to-day administration of the Issuer.

The Noteholders and all persons claiming through them or under the Notes are entitled to the benefit of, are deemed to have notice of and are bound by, the Trust Deed, the Issuer Deed of Charge, the Agency Agreement and the other Transaction Documents, copies of which are available for inspection at the specified office of the Principal Paying Agent.

The issue of the Notes was authorised by resolution of the Board of Directors of the Issuer passed on 19 October 2007.

## 1. DEFINITIONS AND PRINCIPLES OF CONSTRUCTION

### *Definitions*

(a) In these Conditions:

“**Account Bank**” means, at the Closing Date, Bank of New York, acting through its office at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL, United Kingdom, or such financial institution as may be appointed to replace it in the capacity of Account Bank which has the Required Ratings in accordance with the Issuer Deed of Charge and the Account Bank Agreement;

“**Account Bank Agreement**” means the bank account agreement entered into on or about the Closing Date between the Issuer and the Account Bank and any agreement by which it is replaced from time to time in accordance with its terms and with the terms of the Issuer Deed of Charge;

“**Agent Bank**” means, as at the Closing Date, the Bank of New York acting through its office at 48<sup>th</sup> Floor, One Canada Square, London, E14 5AL, United Kingdom;

“**Agents**” means the Paying Agents, the Registrar and the Agent Bank or, where the context requires, any of them;

“**Ambac**” means Ambac Assurance UK Limited, whose registered office is at Level 7, 6 Broadgate, London EC2M 2QS, United Kingdom;

“**Ambac Event of Default**” means each of any of the following events:

- (a) any of the 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 any petition 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.

**“Ambac Fee Letter”** means the fee letter dated on or before the Closing Date between the Issuer and Ambac pursuant to which the Issuer will agree to pay to Ambac certain fees in consideration for the provision by Ambac of the Ambac Financial Guarantee and the Ambac Liquidity Facility Financial Guarantee;

**“Ambac Financial Guarantee”** means the unconditional and irrevocable financial guarantee dated on or about the Closing Date that Ambac provided in favour of the Note Trustee on behalf of the Class A-1 Noteholders from time to time pursuant to which Ambac guarantees the payment of Scheduled Interest and Ultimate Principal (as such terms are defined therein) under the Class A-1 Notes;

**“Ambac Liquidity Facility Financial Guarantee”** means the unconditional and irrevocable financial guarantee dated on or about the Closing Date that Ambac provided in favour of the Liquidity Facility Provider from time to time pursuant to which Ambac guarantees certain payments under the Liquidity Facility Agreement;

**“Amortisation Event”** has the meaning given to it in the Limited Partnership Agreement;

**“Annual Determination Date”** has the meaning given to it in the Limited Partnership Agreement;

**“Assigned Contractual Rights”** means the right, title, interest and benefit of the Issuer under each of the Issuer Transaction Documents to which it is a party or in respect of which it has the benefit other than the Issuer Corporate Services Agreement and the Limited Partnership Agreement (including the IL Loan and the SLLPI);

**“Available Funds”** means, in respect of each Calculation Date, the aggregate amount of (a) payments scheduled to be received by the Issuer from the Limited Partnership under the IL Loan and the SLLPI on the Interest Payment Date immediately following such Calculation Date (adjusted on such Interest Payment Date to take account of any non-payment), (b) any balance standing to the credit of the Issuer Transaction Account, (c) amounts permitted to be drawn down on the Liquidity Facility or from the Issuer Liquidity Reserve Account on the Interest Payment Date immediately following such Calculation Date to the extent available for particular payments (adjusted on such Interest Payment Date to take account of any non-payment), (d) amounts permitted to be drawn from the Issuer Expenses Reserve Account on the Interest Payment Date immediately following such Calculation Date, (e) payments (if any) received by the Issuer pursuant to any other Transaction Document or otherwise and (f) amounts recovered by the Issuer in respect of tax withheld by the Limited Partnership in respect of which Additional Amounts were paid by the Limited Partnership to the Issuer;

**“Bank of Ireland”** means The Governor and Company of the Bank of Ireland, established as a chartered corporation by an Act of the Irish Parliament 1781/2 and by Royal Charter of King George III in 1783, whose principal place of business is at Lower Baggot Street, Dublin 2, Ireland;

**“Bank of Ireland Group”** means Bank of Ireland and any entity that is for the time being a subsidiary or subsidiary undertaking of Bank of Ireland (within the meaning of the Companies Acts 1963 to 2006 of Ireland, as amended and/or restated from time to time and all statutory instruments to be construed as one therewith);



**“Basic Terms Modification”** means:

- (i) any modification which would have the effect, in respect of any Class of Notes, of (A) postponing or altering any day for the payment of interest or principal (to the extent there are funds available for the purpose), (B) reducing, cancelling or rescheduling the amount of principal that would otherwise have been payable in accordance with the Conditions or the amount or rate of interest payable, (C) altering the relevant Priority of Payments, (D) altering the currency of payment or (E) altering the Maturity Date; or
- (ii) any modification to the Issuer Security in any manner not expressly contemplated by the Transaction Documents unless in the Note Trustee’s opinion it is not materially prejudicial to the interests of the Noteholders of either Class; or
- (iii) removing or replacing the Note Trustee or the Security Trustee; or
- (iv) an alteration of (A) the definition of “Basic Terms Modification”, (B) the definition of “Excluded Notes”, (C) the definition of “Reserved Matters”, (D) the quorum required to pass an Extraordinary Resolution, (E) the majority required to pass an Extraordinary Resolution, or (F) the majority required for a Written Resolution,

provided that any modification which is made by the Note Trustee to correct a manifest error or which is, in the opinion of the Note Trustee, of a formal, minor or technical nature shall not constitute a “Basic Terms Modification” and provided, for the avoidance of doubt, that if Ambac’s consent as a party to the relevant Transaction Document would be required for any matter listed in (i) to (iv) above to have effect if such matter were not a Basic Terms Modification, Ambac’s consent will be so required notwithstanding that such matter is a Basic Terms Modification;

**“Business Day”** means a day (other than a Saturday or a Sunday):

- (i) on which commercial banks are open for general business in London, Dublin, the Cayman Islands and Luxembourg; and
- (ii) that is a TARGET Settlement Day;

**“Calculation Date”** means, in relation to any Interest Payment Date, the fifth Business Day prior to such Interest Payment Date;

**“Certificate”** means, in respect of a Definitive Note, the certificate in respect thereof;

**“Class”** means the Class A-1 Notes and the Class A-2 Notes or, where the context requires, any combination of them;

**“Class A-1 Noteholders”** means the registered holders of the Class A-1 Notes;

**“Class A-2 Noteholders”** means the registered holders of the Class A-2 Notes;

**“Clearstream, Luxembourg”** means Clearstream Banking, société anonyme;

**“Closing Date”** means 25 October 2007 or any later date which is agreed between the Issuer, Ambac, Bank of Ireland and the Lead Managers;

**“Common Depository”** means The Bank of New York, as common depository on behalf of Euroclear and Clearstream, Luxembourg;

“**Conditions**” means these terms and conditions as from time to time modified in accordance with the Trust Deed and with respect to Notes represented by a Global Note, as modified by the provisions of the relevant Global Note;

“**Controlling Creditor**” means:

- (a) Ambac for so long as any Class A-1 Notes are outstanding or any amounts remain unpaid under the Financial Guarantee Reimbursement Agreement and prior to the occurrence of an Ambac Event of Default (unless such Ambac Event of Default has been cured or waived by the Note Trustee); and thereafter
- (b) the Note Trustee as long as any Notes remain outstanding; and thereafter
- (c) the Secured Creditor (excluding the Security Trustee) ranking highest in the Issuer Priority of Payments then applicable (or, if more than one ranking *pari passu*, the one owed the largest amount);

“**Definitive Note**” means in respect of each Class of Notes, each registered note issued or to be issued in definitive form for that Class in, or substantially in, the form set out in Schedule 2 to the Trust Deed;

“**Deposit Agreements**” means the Floating Rate Deposit Agreement and the Fixed Rate Deposit Agreement;

“**Deposit Bank**” means, at the Closing Date, Bank of Ireland or such other financial institution as may be appointed to replace it in the capacity of Deposit Bank in accordance with the Limited Partnership Agreement and the Deposit Agreements;

“**Deposits Policy**”, means the policy pursuant to which the Security Trustee will, itself or acting through an agent appointed by it, direct the payment into an interest bearing deposit account with Lloyds TSB Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Citibank N.A. or Bank of America N.A., depositing such amounts with the first named provided (i) it has the Required Ratings or its obligations are unconditionally and irrevocably guaranteed by a person with the Required Ratings and (ii) does not decline to accept such deposit on terms substantially equivalent (except as to rate of return) to the Fixed Rate Deposit and the Floating Rate Deposit; if the first named fails to meet the criteria in (i) and (ii), the deposit will be made with the second on the list, and so on. If a bank (or its guarantor, as applicable) on the list ceases to have the Required Ratings, the bank may be replaced by the Security Trustee (acting on the instructions of the Controlling Creditor);

“**Enforcement Notice**” has the meaning given to it in Condition 10(d) (*Enforcement Notice*);

“**EURIBOR**” means:

- (i) the interest rate for three-month Euro deposits offered to prime banks in the Euro-zone inter-bank market which appears on Reuters Screen EURIBOR01 Page (or such other page as may replace Reuters Screen EURIBOR01 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 Reuters Monitor)) at or about 11.00 a.m. (Brussels 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 three-month and four-month Euro 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 first Agent Bank at its request by each of the Reference Banks as the rate at which three-month Euro deposits or in the case of the first Interest Period only, three-month and/or four-month Euro 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. (Brussels 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 immediately 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 prime banks selected by the Agent Bank and approved by the Note Trustee on the relevant Interest Determination Date;

“Euro” and “€” mean the lawful currency introduced at the start of Stage III of Economic and Monetary Union pursuant to the Treaty on European Union;

“Euroclear” means Euroclear Bank S.A./N.V., as operator of the Euroclear System;

“Exchange Event” means:

- (i) 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 clearing system approved by the Note Trustee is available; or
- (ii) as a result of any amendment to, or change in the laws or regulations of Luxembourg (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;

“Excluded Notes” means those Notes (if any) which are for the time being held by, or by any person for the benefit of, the Issuer (or any affiliate), Ambac or any of its affiliates, the Limited Partnership, the General Partner, Bank of Ireland or any member of the Bank of Ireland Group;

“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, whether on a show of hands or a poll;

**“Failure to Transfer Deposit Event”** means, where the senior, unsecured and unguaranteed long-term debt obligations of the Deposit Bank and of any person by whom the obligations of the Deposit Bank are unconditionally and irrevocably guaranteed do not have the Required Ratings (a **“Ratings Event”**), a failure by the General Partner, having been so directed by Ambac (if it is the Controlling Creditor) or, subject to it having received written notice of the Ratings Event, the Security Trustee in accordance with the Deposits Policy (if Ambac is not the Controlling Creditor) (acting on the instructions of the Note Trustee) to withdraw the full amount standing to the credit of the Fixed Rate Deposit Account and to deposit the same with another financial institution pursuant to a replacement Fixed Rate Deposit Agreement and to withdraw the full amount standing to the credit of the Floating Rate Deposit Account and to deposit the same with another financial institution pursuant to a replacement Floating Rate Deposit Agreement, in each case being a financial institution having (or whose obligations are unconditionally and irrevocably guaranteed by a person that has) at least the Required Ratings, which financial institution is selected by Ambac (if it is the Controlling Creditor) or the Security Trustee in accordance with the Deposits Policy (if Ambac is not the Controlling Creditor) (acting on the instructions of the Note Trustee) and which has agreed to accept such funds on deposit from the Limited Partnership, and the continuation of such failure for a period of 30 days;

**“Financial Guarantee Fees”** means the guarantee fee(s) payable by the Issuer as specified in the Issuer Ambac Fee Letter;

**“Financial Guarantee Reimbursement Agreement”** means a reimbursement and indemnity agreement dated on or about the Closing Date between, among others, 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 the Ambac Financial Guarantee and the Ambac Liquidity Facility Financial Guarantee and will be obliged to pay any fees and expenses of Ambac in respect of the Ambac Financial Guarantee and the Ambac Liquidity Facility Financial Guarantee;

**“Fixed Rate Deposit Agreement”** means the fixed rate deposit agreement entered into on or about the Closing Date between the Limited Partnership and the Deposit Bank and any agreement by which it is replaced from time to time in accordance with its terms and with the terms of the Limited Partnership Agreement;

**“Floating Rate Deposit Agreement”** means the floating rate deposit agreement entered into on or about the Closing Date between the Limited Partnership and the Deposit Bank and any agreement by which it is replaced from time to time in accordance with its terms and with the terms of the Limited Partnership Agreement;

**“GAAP”** means generally accepted accounting principles in Ireland;

**“General Partner”** means Vida Pura Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands having its registered office at P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands;

**“General Partner Keepwell Agreement”** means the general partner keepwell agreement dated the Closing Date between Bank of Ireland as General Partner Keepwell Provider, the General Partner, Ambac and the Security Trustee;

**“General Partner Keepwell Provider”** means Bank of Ireland;

**“Global Note”** means, in respect of each Class of Notes, the global note for that Class in, or substantially in, the form set out in Schedule 1 to the Trust Deed;

**“IL Loan”** means the Insurance-linked Loan to be made by the Issuer under the Limited Partnership Agreement;

**“Indebtedness”** means (without double-counting) any indebtedness of any person for or in respect of:

- (i) moneys borrowed;
- (ii) any amount raised by acceptance under any acceptance credit facility;
- (iii) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (iv) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;
- (v) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (vi) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (vii) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- (viii) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (ix) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (i) to (viii) above;

**“Initial Limited Partner”** means College Green Limited;

**“Insolvency Event”** in respect of a company means:

- (i) the initiation of or consent to Insolvency Proceedings by such company or any other person or the presentation of a petition for the making of an administration order (other than in the case of the Issuer) and, in the opinion of the Note Trustee, such proceedings not being disputed in good faith; or
- (ii) the making of an administration order in relation to such company; or
- (iii) an encumbrancer (excluding, in relation to the Issuer, the Security Trustee or any receiver or manager appointed by the Security Trustee) taking possession of the whole or, in the opinion of the Note Trustee, a substantial part of the undertaking or assets of such company in one or a number of related actions; or
- (iv) a distress, diligence, execution or other process being levied or enforced upon or sued out against the whole or, in the opinion of the Note Trustee, any substantial part of the undertaking or assets of such company (excluding, in relation to the Issuer, by the Security Trustee or any receiver appointed by the Security Trustee) and such order, appointment, possession or process (as the case may be) not being discharged or otherwise ceasing to apply within 30 days; or
- (v) the making of an arrangement, composition, reorganisation with or conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally; or

- (vi) the passing by such company of an effective resolution or the making of an order by a court of competent jurisdiction for the winding-up or dissolution of such company (except, in the case of the Issuer, a winding-up for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Note Trustee or by an Extraordinary Resolution); or
- (vii) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company (excluding, in relation to the Issuer, an administrative receiver or other receiver or manager appointed by the Security Trustee pursuant to the Issuer Deed of Charge);

**“Insolvency Official”** means, in respect of any company, a liquidator, provisional liquidator, administrator (whether appointed by the court or otherwise), examiner, administrative receiver, receiver or manager, nominee, supervisor, trustee in bankruptcy, conservator, guardian *“commissaire à la gestion contrôlée”*, *“liquidateur”*, *“administrateur judiciaire”*, *“curateur”*, *“expert en relation avec la procédure de la gestion contrôlée”* 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, company voluntary arrangement 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, examination, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief from creditors or the appointment of an Insolvency Official (including any *“sursis de paiement”*, *“concordat preventif de la faillite”*, *“gestion contrôlée”*, *“liquidation judiciaire”* or *“faillite”*);

**“Insolvency Regulation”** means Council Regulation (EC) No. 1346/2000 of 29 May 2000;

**“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 falling two Business Days prior to 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 30<sup>th</sup> day of January, April, July and October in each year, except if such day is not a Business Day, in which case it shall be the next succeeding Business Day unless such day falls in the next month, in which case it shall be the preceding Business Day;

**“Interest Period”** means each period from (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date provided that the first Interest Period shall be the period from (and including) the Closing Date and ending on (but excluding) the Interest Payment Date falling in January 2008;

**“Investment Powers of Attorney”** means the irrevocable powers of attorney granted by the General Partner (on behalf of the Limited Partnership and on its own behalf) to Ambac and the Security Trustee pursuant to the Support Agreement;

**“Investor Report”** means the annual report to be prepared by the Issuer Cash Manager substantially in the form set out in a Schedule to the Cash Management Agreement;

**“Irish Paying Agent”** means BNY Financial Services Plc, acting through its office at 70 Sir John Rogerson's Quay, Dublin 2, Ireland;

**“Issuer”** means Avondale Securities S.A., registered with the Luxembourg register of Commerce and Companies under number B-131873 whose registered office is at 7, Val Ste Croix, L-1371 Luxembourg, as issuer of the Notes;

**“Issuer Accounts”** means the Issuer Transaction Account, the Issuer Expenses Reserve Account and the Issuer Liquidity Reserve Account and any other bank account (other than the Issuer Share Capital Account) of the Issuer or in respect of which the Issuer at any time has an interest or, where the context requires, any of them;

**“Issuer Ambac Fee Letter”** means the fee letter from the Issuer to, and countersigned by, Ambac dated on or about the Closing Date pursuant to which the Issuer agrees to pay certain fees to Ambac in consideration for the provision by Ambac of the Ambac Financial Guarantee and the Ambac Liquidity Facility Financial Guarantee;

**“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 charged by or pursuant to the Issuer Deed of Charge and which is described in summary in Condition 3(l) (*Status, Priority and Security – Security*);

**“Issuer Deed of Charge”** means the deed of charge dated the Closing Date between, amongst others, the Issuer, the Security Trustee, the Note Trustee and Ambac;

**“Issuer Enforcement Event”** has the meaning given to it Condition 10(b) (*Issuer Enforcement Events- Events*);

**“Issuer Expenses Loan”** means the €500,000 non-interest-bearing loan provided by Bank of Ireland to the Issuer pursuant to the Issuer Expenses Loan Agreement;

**“Issuer Expenses Loan Agreement”** means the expenses loan agreement dated the Closing Date between Bank of Ireland as Issuer Expenses Loan Provider and the Issuer for the provision of the Issuer Expenses Loan;

**“Issuer Expenses Loan Provider”** means Bank of Ireland;

**“Issuer Expenses Reserve Account”** means the account held in the name of the Issuer with the Account Bank in accordance with the terms of the Account Bank Agreement designated the “Issuer Expenses Reserve Account”, being a reserve account of the Issuer into which the proceeds of the Issuer Expenses Loan will be paid;

**“Issuer Profit”** means €10,000 per annum;

**“Issuer Liquidity Reserve Account”** means the account held in the name of the Issuer with the Account Bank designated the “Issuer Liquidity Reserve Account”, being a reserve account of the Issuer at the Account Bank into which any Prefunded Liquidity Reserve Advance will be paid;

**“Issuer Security”** means the security created by or pursuant to the Issuer Deed of Charge over the Issuer Charged Property and which is summarised in Condition 3(l) (*Status, Priority and Security – Security*);

**“Issuer Security Documents”** means the Issuer Deed of Charge and the Security Power of Attorney or, where the context requires, any of them;

**“Issuer Share Capital Account”** means the account held in the name of the Issuer with Credem International (Lux) SA designated the “Issuer Share Capital Account”, being the account of the Issuer in which the Issuer’s share capital is held;

**“Issuer Transaction Account”** means the account held in the name of the Issuer with the Account Bank designated the “Issuer Transaction Account”;

**“Issuer Transaction Documents”** means the Trust Deed, the Notes, the Ambac Liquidity Facility Financial Guarantee, the Ambac Financial Guarantee, the Ambac Fee Letter, the Financial Guarantee Reimbursement Agreement, the Agency Agreement, the Cash Management Agreement, the Issuer Deed of Charge, the Limited Partnership Agreement, the Security Power of Attorney, the Subscription Agreement, the Master Definitions and Framework Deed, the Account Bank Agreement, the Liquidity Facility Agreement, the Issuer Expenses Loan Agreement and the Issuer Corporate Services Agreement and any other document which is designated as an “Issuer Transaction Document” with the consent of the Controlling Creditor and the Issuer;

**“Lead Managers”** means Lehman Brothers International (Europe) and Goldman Sachs International;

**“Limited Partnership”** means BOI VIF Funding (No. 1) LP;

**“Limited Partnership Agreement”** means an agreement dated 14 September 2007 between Openmulti Limited as the initial general partner and the Initial Limited Partner as amended by the assignment on 28 September 2007 by Openmulti Limited of its general partnership interest and obligations to the General Partner as the general partner, as further amended on 10 October 2007 and as amended and restated on 25 October 2007, establishing the Limited Partnership, as the same may be amended from time to time and, for the avoidance of doubt, the Limited Partnership Agreement shall be construed so as to include reference to the amendment and restatement agreement in respect thereof dated 25 October 2007 (and the Schedules thereto);

**“Limited Partnership Interests”** means the €1,000 SLLPI to be issued by the Limited Partnership on or about the Closing Date and the €10,000 First Limited Partnership Interest issued by the Limited Partnership on establishment of the Limited Partnership;

**“Liquidity Facility”** means the €7,000,000 364 day revolving liquidity facility provided by the Liquidity Facility Provider to the Issuer under the Liquidity Facility Agreement;

**“Liquidity Facility Advance”** means, in respect of an Interest Payment Date, the amount to be advanced to the Issuer under the Liquidity Facility Agreement on such Interest Payment Date;

**“Liquidity Facility Agreement”** means the liquidity facility agreement dated the Closing Date between the Issuer, the Liquidity Facility Provider, the Security Trustee and the Issuer Cash Manager;

**“Liquidity Facility Commitment Fee”** means the commitment fee payable on the undrawn amount payable in accordance with the Liquidity Facility Agreement;

**“Liquidity Facility Provider”** means, as at the Closing Date HSBC Bank plc, acting through its London branch at 8 Canada Square, London E14 5HQ, United Kingdom;

**“Liquidity Facility Subordinated Amounts”** means amounts payable pursuant to the Liquidity Facility Agreement in respect of any Tax Deduction or Increased Costs amount as such terms are defined in the Liquidity Facility Agreement;

**“Liquidity Netting Amount”** means, in respect of an Interest Payment Date, the least of (a) the amount that would be repaid to the Liquidity Facility Provider under the Liquidity Facility Agreement under Condition 3(m)(vi)(B)(2) or Condition 3(n)(vi)(B)(2) if the Liquidity Netting Amount were zero; (b) the amount of any shortfall that would arise in the amount capable of being paid under Condition 3(m)(vii) or Condition 3(n)(vii) if the Liquidity Netting Amount were zero; and (c) the amount that would be capable of being drawn down under the Liquidity Facility following the repayment to the Liquidity Facility Provider of the amount in (a);



**“Liquidity Reserve Netting Amount”** means, in respect of an Interest Payment Date, the lesser of (a) the amount that would be credited to the Issuer Liquidity Reserve Account under Condition 3(m)(vi)(A) or Condition 3(n)(vi)(A) if the Liquidity Reserve Netting Amount were zero; (b) the amount of any shortfall that would arise in the amount capable of being paid under Condition 3(m)(vii) or Condition 3(n)(vii) if the Liquidity Reserve Netting Amount were zero and (c) the amount that would be capable of being withdrawn from the Issuer Liquidity Reserve Account following the crediting thereto of the amount in (a);

**“LP Subscription Agreement”** means the agreement pursuant to which the Issuer agrees to subscribe the Savings-Linked Limited Partners Interest and to make the IL Loan;

**“Master Definitions and Framework Deed”** means the master definitions and framework deed dated the Closing Date between the Issuer, the Note Trustee, the Security Trustee and certain of the other Parties to the Issuer Transaction Documents;

**“Maturity Date”** means the Interest Payment Date falling in July 2032;

**“Meeting”** means a meeting of the Noteholders or of any one or more Classes of Noteholders and, except where the context otherwise requires, includes a meeting resumed or reconvened following an adjournment;

**“Moody’s”** means Moody’s Investors Service Limited or any successor to its rating business;

**“Most Senior Class”** means, at any time:

- (i) the Class A-1 Notes; or
- (ii) if no Class A-1 Notes are then outstanding, the Class A-2 Notes;

**“Nominated Deposit Bank”** means Lloyds TSB Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Citibank N.A. or Bank of America N.A. or any other bank that may be nominated as such in accordance with the Deposits Policy;

**“Note Default Notice”** has the meaning given to it in Condition 10(a) (*Issuer Enforcement Events – Determination of an Issuer Enforcement Event and Instruction to Enforce*);

**“Noteholders”** means the Class A-1 Noteholders and the Class A-2 Noteholders;

**“Note Principal Payment”** has the meaning given to it in Condition 6(b) (*Redemption, Purchase and Cancellation – Note Principal Payments*);

**“Notes”** means the Class A-1 Notes and the Class A-2 Notes or, where the context requires, any of them and includes the Definitive Notes and the Global Notes or, where the context requires, any of them;

**“Note Trustee”** means, as at the Closing Date, BNY Corporate Trustee Services Limited, whose principal place of business is at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL, United Kingdom which expression includes the trustee or trustees for the time being under the Trust Deed as Trustee for the Noteholders;

**“Official List”** means the official list maintained by the Stock Exchange;

**“Paying Agents”** means the Principal Paying Agent, the Irish Paying Agent together with any successor or additional paying agents appointed from time to time in connection with the Notes under the Agency Agreement or, where the context requires, any of them;

**“Pool Factor”** has the meaning given to it in Condition 6(c) (*Redemption, Purchase and Cancellation – Principal Amount Outstanding and Pool Factor*);

**“Post-Enforcement Priority of Payments”** has the meaning given to it in Condition 3(n) (*Status, Priority and Security – Priority of Payments Following Enforcement*);

**“Pre-Enforcement Priority of Payments”** has the meaning given to it in Condition 3(m) (*Status, Priority and Security – Priority of Payments Prior to Enforcement*);

**“Prefunded Liquidity Reserve Advance”** has the meaning given to it in the Liquidity Facility Agreement;

**“Principal Amount Outstanding”** has the meaning given to it in Condition 6(c) (*Redemption, Purchase and Cancellation – Principal Amount Outstanding and Pool Factor*);

**“Principal Paying Agent”** means, as at the Closing Date, The Bank of New York, acting through its office at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL, United Kingdom;

**“Priority of Payments”** means each of the Pre-Enforcement Priority of Payments and the Post-Enforcement Priority of Payments and **“Priorities of Payment”** shall be construed accordingly;

**“Prospectus”** means the preliminary prospectus dated 12 October 2007 and the prospectus dated 24 October relating to the offering and issue of the Notes;

**“Provisions for Meetings of Noteholders”** means the provisions contained in Schedule 7 (*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 or, where the context requires, either of them;

**“Rating Condition”** means, with respect to any circumstance, event or action taken or to be taken, a condition that is satisfied when each Rating Agency has confirmed in writing to the Issuer that such circumstance, event or action will not result in the withdrawal, reduction or other adverse action with respect to the then-current rating of the Notes and in the case of the Class A-1 Notes, the then private shadow rating (being the rating assigned ignoring the benefit of the Ambac Financial Guarantee) assigned thereto;

**“Receiver”** means any person (being a licensed insolvency practitioner) who is appointed by the Security Trustee to be a receiver or an administrative receiver (as the case may be) of the Issuer Charged Property pursuant to any of the Issuer Security Documents;

**“Reference Banks”** means the principal Euro-zone office of Barclays Bank PLC, Deutsche Bank AG, BNP Paribas and Unicredito Italiano SpA or any other four major banks in the Euro-zone inter-bank market which are approved by the Note Trustee from time to time;

**“Register”** means the register which the Issuer shall procure to be kept by the Registrar;

**“Registrar”** means, as at the Closing Date, The Bank of New York (Luxembourg) S.A. of Aerogolf Center, 1A, Hoehenhof, 1736 Senningerberg, Luxembourg;

**“Relevant Class”** has the meaning given to it in Condition 12(c) (*Meetings of Noteholders – Powers*);

**“Relevant Date”** means, for the purposes of Condition 8 (*Prescription*), 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 that 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 18 (*Notices and Information*);

“**Relevant Margin**” has the meaning given to it in Condition 5(c) (*Interest – Rate of Interest*);

“**Reserved Matter**” means each and every right, power, authority and discretion of, or exercisable by, the Note Trustee or the 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 or the Security Trustee or the Noteholders in respect of any 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 or to any other provision of the Transaction Documents which has the effect of amending a Priority of Payments or (v) of any provision which is provided for the purposes of enabling the Note Trustee or 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 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 Enforcement Event or in relation to the Reserved Matters of any Basic Terms Modification;
- (f) to require the making of payments due and payable to the Note Trustee or the Noteholders;
- (g) to recover or receive any sum due to the Note Trustee or Security Trustee for its own account (including, without limitation, in relation to indemnities in favour of the Note Trustee or the 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
- (h) to agree 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 Security Trustee under the Transaction Documents,

and provided, for the avoidance of doubt, that if Ambac’s consent as a party to the relevant Transaction Document would be required for any matter listed in (b) to (h) above (other than in respect of the Ambac Financial Guarantee) to have effect if such matter were not a Reserved Matter, Ambac’s consent will be so required notwithstanding that such matter is a Reserved Matter;

“**Secured Creditors**” means the Noteholders, Ambac, the Note Trustee, the Security Trustee, the Paying Agents, the Agent Bank, the Issuer Cash Manager, the Account Bank, the Issuer Corporate Services Provider, the Lead Managers, the Liquidity Facility Provider, the Issuer Expenses Loan

Provider, any Receiver and any other person acceding to the Issuer Deed of Charge as a secured creditor of the Issuer from time to time;

**“Secured Obligations”** means all monies, liabilities and obligations whatsoever, present and future and whether actual or contingent, which from time to time become due, owing or payable by the Issuer:

- (i) to the Security Trustee and/or any Receiver under the Issuer Deed of Charge or any other documents evidencing or securing any such liabilities;
- (ii) to, or to the order of, the Note Trustee under the Trust Deed;
- (iii) to the Noteholders under or in respect of the Notes; and
- (iv) to each of the other Secured Creditors in accordance with each of the other Transaction Documents to which it is a party;

**“Security Interest”** means any mortgage, sub-mortgage, security assignment, charge, sub-charge, pledge, lien, right of set-off or other encumbrance or security interest of any kind, however created or arising, including anything analogous to any of the foregoing under the laws of any jurisdiction;

**“Security Power of Attorney”** means the security power of attorney dated the Closing Date granted by the Issuer in favour of the Security Trustee in, or substantially in, the form set out in Schedule 1 (*Power of Attorney*) to the Issuer Deed of Charge;

**“Security Trustee”** means, as at the Closing Date, BNY Corporate Trustee Services Limited, whose principal place of business is at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL, United Kingdom, which term shall include any successor security trustee appointed pursuant to the Issuer Deed of Charge;

**“specified office”** means, with respect to the Paying Agents or the Registrar, the offices listed at the end of these Conditions or any other offices which are from time to time duly notified pursuant to Condition 18 (*Notices and Information*);

**“S&P”** means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies Inc., or any successor to its rating business;

**“SLLPI”** means the Savings-Linked Limited Partnership Interest in the Limited Partnership as set out in the Limited Partnership Agreement;

**“Stock Exchange”** means the Irish Stock Exchange Limited;

**“Subscription Agreement”** means the subscription agreement dated 24 October 2007 between the Issuer, Ambac, Bank of Ireland and the Lead Managers;

**“Support Agreement”** means the support agreement dated on or about the Closing Date between the Limited Partnership, Bank of Ireland, Ambac and the Security Trustee;

**“TARGET Settlement Day”** means a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer System is open for business;

**“Third-Party Expenses”** has the meaning given to it in Condition 3(m)(iii) (*Status, Priority and Security – Priority of Payment Prior to Enforcement*);

**“Third-Party Expenses Cap”** means €50,000 *per annum*;

**“Transaction Documents”** means the Trust Deed, the Notes, the Ambac Financial Guarantee, the Ambac Liquidity Facility Financial Guarantee, the Ambac Fee Letter, the Financial Guarantee Reimbursement Agreement, the Agency Agreement, the Calculation Agreement, the Cash Management Agreement, the Deposit Agreements, the Issuer Deed of Charge, the Limited Partnership Agreement, the Security Power of Attorney, the Subscription Agreement, the Support Agreement, the Investment Powers of Attorney, the General Partner Keepwell Agreement, the Master Definitions and Framework Deed, the Account Bank Agreement, the Liquidity Facility Agreement, the Issuer Expenses Loan Agreement and the Issuer Corporate Services Agreement and any other document which is designated as a “Transaction Document” with the consent of the Controlling Creditor and the Issuer;

**“Transaction Party”** means, in respect of any Transaction Document, a person who is a party to such Transaction Document and **“Transaction Parties”** means persons who are party to a Transaction Document;

**“Trust Deed”** means the trust deed constituting the Notes dated the Closing Date between the Issuer, the Note Trustee and Ambac;

**“Written Resolution”** means a resolution in writing signed by or on behalf of all of the holders of Notes or, if applicable, all of the holders of Notes of a particular Class who, in accordance with the Provisions for Meetings of Noteholders, would be entitled to attend and vote at a Meeting of Noteholders or, if applicable, Noteholders of that Class, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more of them.

#### *General Interpretation*

(b) In these Conditions any reference to:

- (i) **“Euroclear and/or “Clearstream, Luxembourg”** shall, wherever the context so admits, be deemed to include reference to any additional or alternative clearing system approved by the Issuer and the Note Trustee in relation to the Notes;
- (ii) **“including”** shall be construed as a reference to **“including without limitation”**, so that any list of items or matters appearing after the word “including” shall be deemed not to be an exhaustive list, but shall be deemed rather to be a representative list, of those items or matters forming a part of the category described prior to the word “including”;
- (iii) a **“law”** shall be construed as any law (including common or customary law), statute, constitution, decree, judgment, treaty, regulation, directive, by-law, order or any other legislative measure of any government, supranational, subsovereign (including local government, statutory or regulatory body or court);
- (iv) **“outstanding”** means, in relation to the Notes, all Notes issued other than:
  - (A) those which have been redeemed in full in accordance with these Conditions;
  - (B) those in respect of which the date for redemption in accordance with these 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 accordance with the Agency Agreement (and, where appropriate, notice to that effect has been given to the Noteholders in accordance with Condition 18 (*Notices and Information*)) and remain available for payment in accordance with these 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 17 (*Replacement of Notes*);
  - (E) (for the purpose only of ascertaining how many Notes are outstanding and without prejudice to their status for any other purpose) those Notes which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 17 (*Replacement of Notes*); and
  - (F) provided that for the purposes of (i) ascertaining the right to attend and vote at any meeting of Noteholders or for the purpose of any Written Resolution; (ii) the determination of how many Notes are outstanding for the purposes of Conditions 10 (*Issuer Enforcement Event*), 11 (*Noteholder Action*) and 12 (*Meetings of Noteholders*); (iii) the exercise of any discretion, power or authority which the Note Trustee is required, expressly or impliedly to exercise in or by reference to the interests of the Noteholders or either Class of them; and (iv) the certification or determination by the Note Trustee as to whether any matter is materially prejudicial to the interests of holders of the Notes of either Class of the Notes, Excluded Notes shall be deemed not to be outstanding;
- (v) a “**person**” means, any individual, firm, company, corporation, government, state or agency of a state or any association or partnership, limited liability company, trustee or statutory business trust (whether or not having separate legal personality) or two or more of the foregoing;
  - (vi) “**repay**”, “**redeem**” and “**pay**” shall each include both of the others and “**repayable**”, “**repayment**” and “**repaid**” and “**redeemable**”, “**redemption**” and “**redeemed**” and “**payable**”, “**payment**” and “**paid**” shall be construed accordingly;
  - (vii) a “**subsidiary**” of a company or corporation shall be construed as a reference to any company or corporation (A) which is controlled, directly or indirectly, by the first mentioned company or corporation; or (B) more than half the issued share capital of which is beneficially owned, directly or indirectly, by the first mentioned company or corporation; or (C) which the first mentioned company or corporation is a member of and has the right to appoint or remove a majority of its board of directors; or (D) which is a subsidiary of another subsidiary of the first mentioned company or corporation and for these purposes a company or corporation shall be treated as being controlled by another if that other company or corporation is able to direct its affairs and/or to control the composition of its board of directors or equivalent body;
  - (viii) “**tax**” means any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any jurisdiction or any sub-division of it or by any authority in it having power to tax, and “**taxes**”, “**taxation**”, “**taxable**” and comparable expressions shall be construed accordingly;
  - (ix) any transaction party includes its successors, transferees and assignees and, in the case of the Note Trustee and the Security Trustee, includes any additional or replacement trustee, separate trustee or co-trustee appointed under the Trust Deed and the Issuer Deed of Charge, respectively; and

- (x) “VAT” shall be construed as a reference to value added tax or any other tax of a similar fiscal nature imposed by the laws of any jurisdiction.

#### *Singular and Plural*

- (c) Unless the context otherwise requires:
  - (i) words denoting the singular number only include the plural number also and *vice versa*;
  - (ii) a defined term in the plural which refers to a number of different items or matters may be used in the singular or plural to refer to any (or any set) of those items or matters, as the context requires;
  - (iii) words denoting one gender only include the other genders; and
  - (iv) words denoting persons only include firms, corporations and other organised entities, whether separate legal entities or otherwise, and *vice versa*.

#### *Agreements and Statutes*

- (d) Unless the context otherwise requires, any reference in these Conditions to:
  - (i) any Transaction Document or any other agreement, deed or document shall be construed as a reference to the relevant agreement, deed or document as the same may have been, or may from time to time be, replaced, extended, amended, varied, novated, supplemented or superseded in accordance with its terms and includes any agreement, deed or document expressed to be supplemental to it, as from time to time so extended, amended, varied or novated;
  - (ii) a person includes its permitted successors, assignors and transferees; and
  - (iii) 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.

## **2. FORM, TITLE, TRANSFER AND EXCHANGE**

#### *Denominations*

- (a) The Notes will be issued in minimum denominations of €100,000 (the “**Minimum Denomination**”) and in increments above €100,000 of 1,000 up to and including €199,000 each (such denominations being the “**Authorised Denominations**”).

#### *Form of Global Notes*

- (b) Each Note will be serially numbered and will be represented by beneficial interests in one or more Global Notes in fully registered form in the name of the certified legal owner thereof in substantially the form attached to the Trust Deed, in each case without interest coupons or principal receipts attached, in the applicable Authorised Denomination. Certificates representing Global Notes will be issued and registered in the name of a nominee for the Common Depository. Definitive Notes will be issued to each Noteholder in respect of its registered holding or holdings of Global Note(s) only in the limited circumstances described herein. Each Certificate in respect of a Definitive Note will be numbered serially with an identifying number which will be recorded in the Register which the Issuer shall procure to be kept by the Registrar.

*Title to Notes*

- (c) Title to Notes passes upon registration of transfers in the Register in accordance with the provisions of the Agency Agreement and the Trust Deed. Notes will be transferable only on the books of the Registrar. The registered holder of any Note will (except as ordered by a court of competent jurisdiction or otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder. Interests in Notes representing a Global Note will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

*Issue of Definitive Notes*

- (d) If, while any Notes are represented by a Global Note, an Exchange Event occurs, the Issuer will deliver Definitive Notes.

*Form of Definitive Notes*

- (e) Definitive Notes, if issued, will be serially numbered and in registered form.

*Transfer*

- (f) Subject to the other conditions set forth herein, transfers of a Global Note shall be limited to transfers of such Global Note, in whole, or in part, to nominees of the Clearing Systems or to one or more successors of the Clearing Systems or such successor's nominee. Definitive Notes may be transferred in whole or in part in nominal amounts equal to, the applicable Minimum Denomination and Authorised Denominations in excess thereof, provided, in the case of transfers in part, the transferor retains Notes having a denomination of at least equal to the Minimum Denomination, only upon the surrender at the specified office of the Registrar or Principal Paying Agent, of the Certificate(s) (in respect of such Definitive Note(s)) to be transferred, with the form of transfer endorsed on such Certificate duly completed and executed and together with such other evidence as the Registrar or the relevant Principal Paying Agent may reasonably require. In the case of a transfer of part only of a Definitive Note, a new Certificate in respect of such surrendered Definitive Note will be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred will be issued to the transferor.

*Delivery of New Notes*

- (g) Each new Certificate to be issued pursuant to Condition 2(f) (*Transfer*) will be available for delivery within five Business Days of receipt of such form of transfer or of surrender of an existing Certificate upon partial redemption. Delivery of new Certificates shall be made at the specified office of the Registrar or Principal Paying Agent, as the case may be, to whom delivery or surrender shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer or otherwise in writing, shall be mailed by pre-paid first class post, at the risk of the holder entitled to the new Certificate, to such address as may be so specified. In this Condition 2(g) "**Business Day**" means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open for business in the place of the specified offices of the Registrar and the Principal Paying Agent.



### *Transfer Free of Charge*

- (h) Transfers of Global Notes and Definitive Notes in accordance with these Conditions on registration or transfer will be effected without charge by the Registrar or the Principal Paying Agent on behalf of the Issuer, but upon payment (or the giving of such indemnity as the Registrar or Principal Paying Agent may require in respect thereof) of any tax or other governmental charges which may be imposed in relation to it.

### *Closed Periods*

- (i) No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 calendar days ending on the due date for redemption (in full) of that Note or (ii) during the period of 15 calendar days ending on the due date for any payment of interest under the Notes.

### *Regulations Concerning Transfer and Registration*

- (j) All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. Subject to receipt of the prior written consent of the Note Trustee, the regulations may be changed by the Issuer in any manner which is reasonably required by the Issuer to reflect changes in legal or regulatory requirements or in any other manner which, in the opinion of the Issuer, is not prejudicial to the interests of the holders of either Class of Notes. A copy of the current regulations may be inspected at the offices of the Registrar during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for the term of the Notes and will be sent by the Registrar to any Noteholder who so requests.

## **3. STATUS, PRIORITY AND SECURITY**

### *Status and Relationship between the Notes*

- (a) The Notes constitute direct and, upon issue, limited recourse obligations of the Issuer subject to the Trust Deed and these Conditions and are secured by the Issuer Security.
- (b) The Notes of each Class rank *pari passu* without preference or priority among themselves. The Class A-1 Notes and the Class A-2 Notes rank as among themselves in accordance with the relevant Priority of Payments set out in this Condition 3 (*Status, Priority and Security*). Certain other obligations of the Issuer rank in priority to the Notes in accordance with the relevant Priority of Payments.
- (c) The Class A-1 Notes have the benefit of the Ambac Financial Guarantee (issued pursuant to the Financial Guarantee Reimbursement Agreement) pursuant to which Ambac unconditionally and irrevocably agrees to pay to the Class A-1 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 Class A-1 Notes, all as more particularly described in the Ambac Financial Guarantee. Ambac will not be obliged under any circumstances to accelerate payment of any Guaranteed Amounts (as defined in the Ambac Financial Guarantee) under the Ambac Financial Guarantee. However, it may accelerate payment of Guaranteed Amounts 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 Class A-1 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 deduction or withholding for or on account of tax required to be made by or on behalf of the Issuer in respect of the Class A-1 Notes.

- (d) The Ambac Financial Guarantee provided by Ambac in respect of the Class A-1 Notes constitutes a direct, unsecured obligation of Ambac, which will rank at least *pari passu* with all other secured 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 Class A-1 Noteholders 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. Such right of subrogation is, however, subject to limited recourse provisions.
- (f) Each of the Trust Deed and the Issuer Deed of Charge provide that the exercise or performance of any right, duty, power and discretion of the Note Trustee or, as the case may be, the Security Trustee is subject to the consent of the Controlling Creditor and shall be exercised or performed as instructed by the Controlling Creditor unless (in either case) such exercise or performance is a Reserved Matter or is a Basic Terms Modification matter.

#### *Conflicts of Interest*

- (g) The Trust Deed contains provisions requiring the Note Trustee (except where expressly provided otherwise in any Transaction Document) to have regard to the interests of the Noteholders as a Class as regards the exercise or performance of each of its trusts, powers, authorities, duties, discretions and obligations under or in connection with the Trust Deed and each of the other Transaction Documents. If, in relation to the exercise or performance of any of those trusts, powers, authorities, duties, discretions and obligations, in the Note Trustee's opinion there is or may be a conflict between the interests of the Class A-1 Noteholders and the Class A-2 Noteholders, the Note Trustee shall, to the extent permitted by applicable law, have regard only to the interests of the Class A-1 Noteholders; except that in relation to any provision of a Transaction Document that requires the Note Trustee to have regard to the interests of the Noteholders of a Class or to determine that the relevant circumstance, event or action taken or to be taken is not materially prejudicial to the interests of the Noteholders of any Class, the Note Trustee shall have regard to the interests of the Noteholders of such Class irrespective of any conflict between the interests of the different Classes of Noteholders.
- (h) In relation to the exercise or performance by it of each of its trusts, powers, authorities, duties, discretions and obligations under or in connection with the Trust Deed and each of the other Transaction Documents or conferred upon it by operation of law in, or by reference to, the interests of the Noteholders or any of them, the Note Trustee shall not have regard to the interests of the holders of the Excluded Notes.
- (i) In relation to the exercise or performance by it of each of its trusts, powers, authorities, duties, discretions and obligations under or in connection with the Trust Deed and each of the other Transaction Documents or conferred upon it by operation of law, the Note Trustee shall not have regard to the circumstances of individual Noteholders (and in particular the place where they are domiciled or resident for any purpose) and neither the Note Trustee nor any Noteholder shall have any right to claim any indemnity from or be compensated by the Issuer or any other person for the tax or other consequences for it individually of any such exercise or performance.
- (j) The Issuer Deed of Charge contains provisions requiring the Security Trustee (except where expressly provided otherwise) to have regard to the interests of the Secured Creditors as a class as regards the exercise or performance of each of its trusts, powers, authorities, duties, discretions and obligations in respect of the Issuer Security under the Issuer Deed of Charge and each of the other Transaction Documents or the rights or benefits which are comprised in the Issuer Security. If, in relation to the exercise or performance of any of those trusts,

powers, authorities, duties, discretions and obligations, in the Security Trustee's opinion there is or may be a conflict:

- (i) between the interests of (A) the Class A-1 Noteholders and (B) the other Secured Creditors, the Security Trustee shall, to the extent permitted by applicable law, have regard only to the interests of the Class A-1 Noteholders; or
- (ii) if there are no Class A-1 Notes outstanding or amounts due to Ambac under the Financial Guarantee Reimbursement Agreement, between the interests of (A) the Class A-2 Noteholders and (B) the other Secured Creditors, the Security Trustee shall, to the extent permitted by applicable law, have regard only to the interests of the Class A-2 Noteholders; or
- (iii) between the interests of (A) Ambac and (B) any other Secured Creditor, the Security Trustee shall, to the extent permitted by applicable law, have regard only to the interests of Ambac (for so long as Ambac is the Controlling Creditor) (other than with respect to the Reserved Matters or, save to the extent provided in Condition 13(b), any Basic Terms Modification),

provided that so long as Ambac is the Controlling Creditor and other than in respect of a Basic Terms Modification or a Reserved Matter, the Security Trustee shall act on the instructions or directions of Ambac (or the Note Trustee itself acting on the instructions or directions of Ambac) and any such instruction or direction shall be conclusive and binding on all parties.

- (k) The Security Trustee shall on any occasion on which it is required to have regard to (or act (or omit to act)) in the interests of the Noteholders or either Class of them, obtain and be entitled to rely on the confirmation or instructions or direction of the Note Trustee as to whether (1) in the opinion of the Note Trustee any matter, action or omission is or is not in the interests of the Noteholders or either Class of them or (2) a direction, instruction or authorisation has been given by or on behalf of the Noteholders by Extraordinary Resolution or by holders of a specified percentage of Notes (in each case of either Class) and until it receives such confirmation, direction or instruction, the Security Trustee shall not be obliged to take any action, exercise any right, power or discretion or perform any duty or refrain from doing so.

#### *Security*

- (l) As security for the Secured Obligations, the Issuer has created the following security pursuant to the Issuer Deed of Charge:
  - (i) a charge by way of first fixed security over the Issuer's rights in the IL Loan, the SLLPI and the Limited Partnership Agreement;
  - (ii) an assignment by way of first fixed security over the Issuer's rights in the Assigned Contractual Rights;
  - (iii) a first fixed charge over the Issuer's rights in the Issuer Accounts and the debts represented thereby (which may take effect as a floating charge and so rank behind the claims of any preferential creditors of the Issuer); and
  - (iv) a first floating charge over all the present and future property, assets and undertaking of the Issuer not subject to the charges by way of security, assignments by way of security or fixed charges, or otherwise assigned as security, described above (other than the Issuer Share Capital Account).

*Priority of Payments Prior to Enforcement*

- (m) Prior to the delivery of an Enforcement Notice in accordance with Condition 10(d) (*Enforcement Notice*), the Issuer Cash Manager, as agent for the Issuer, shall on each Interest Payment Date instruct the Account Bank to make payments or provisions from Available Funds standing to the credit of the Issuer Transaction Account to be applied in paying or providing for the payment of the following amounts (in each case, together with any interest thereon and, in each case, except in the case of amounts of interest due or overdue in respect of the Notes, together with any VAT thereon, as provided for in the relevant Transaction Documents and the Master Definitions and Framework Deed) in the following order of priority (the “**Pre-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 in full and to the extent of the funds permitted to be applied in respect thereof in accordance with the proviso to this Condition 3(m)), in accordance with and as more fully set out in the Issuer Deed of Charge:
- (i) *first*, in or towards payment, *pro rata*, according to the respective amounts due, of (A) the remuneration and other amounts due to the Note Trustee and any costs, charges, liabilities and expenses incurred by it for which it is entitled to be reimbursed or indemnified under the Trust Deed and the Issuer Deed of Charge and (B) the remuneration and other amounts due to the Security Trustee and any costs, charges, liabilities and expenses incurred by it for which it is entitled to be reimbursed or indemnified under the Issuer Deed of Charge (in each case, other than any amounts due on the Notes);
  - (ii) *second*, in or towards payment, *pro rata* according to the respective amounts due, of (A) the remuneration and other amounts due to the Paying Agents, the Registrar and the Agent Bank and any costs, charges, liabilities and expenses incurred by any of them for which any of them is entitled to be reimbursed or indemnified under the Agency Agreement and the Issuer Deed of Charge, (B) the remuneration and other amounts due to the Account Bank and any costs, charges, liabilities and expenses incurred by it for which it is entitled to be reimbursed or indemnified under the Account Bank Agreement and the Issuer Deed of Charge, (C) the remuneration and other amounts due to the Issuer Corporate Services Provider and any costs, charges, liabilities and expenses incurred by it for which it is entitled to be reimbursed or indemnified under the Issuer Corporate Services Agreement and the Issuer Deed of Charge and (D) the remuneration and other amounts due to the Issuer Cash Manager and any costs, charges, liabilities and expenses incurred by it for which it is entitled to be reimbursed or indemnified under the Cash Management Agreement and the Issuer Deed of Charge;
  - (iii) *third*, in or towards payment of or provision for sums due to third-party creditors of the Issuer 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 in respect of the Issuer’s liability to corporate income tax (if any) and the Issuer Profit (such sums, the “**Third-Party Expenses**”), to the extent (in aggregate) less than or equal to the Third-Party Expenses Cap;
  - (iv) *fourth*, in or towards satisfaction of the amounts then due in respect of the Financial Guarantee Fees, premium, fees or other amounts (other than (i) in reimbursement of amounts paid by Ambac under the Ambac Financial Guarantee or the Ambac Liquidity Facility Financial Guarantee or (ii) in compensation for any costs to Ambac under Clause 6.5 of the Financial Guarantee Reimbursement Agreement) (if any) payable to Ambac pursuant to the terms of the Financial Guarantee Reimbursement Agreement (including any interest thereon);

- (v) *fifth*, in or towards satisfaction of any amounts payable to the Limited Partnership in repayment of any Additional Amounts (as defined in the Limited Partnership Agreement) paid by the Limited Partnership in respect of the IL Loan and the SLLPI (but only to the extent the Issuer has recovered the tax withheld in respect of such Additional Amounts were paid);
- (vi) *sixth*, in or towards payment, in the following order of priority,
  - (A) if (w) the Maturity Date has not yet occurred, (x) the Liquidity Facility has been fully drawn in respect of a Prefunded Liquidity Reserve Advance, (y) such Prefunded Liquidity Reserve Advance has been credited to the Issuer Liquidity Reserve Account and (z) under the terms of the Liquidity Facility Agreement no Prefunded Liquidity Reserve Advance is as yet required to be repaid, to the Issuer Liquidity Reserve Account of such amount as would maintain the balance of the Issuer Liquidity Reserve Account at, or increase it to, an amount equal to the then maximum commitment of the Liquidity Facility Provider under the Liquidity Facility Agreement (ignoring the effect of any Liquidity Subordinated Amounts), provided that the amount that would otherwise be credited to the Issuer Liquidity Reserve Account under this paragraph (A) shall be reduced by the Liquidity Reserve Netting Amount in respect of such Interest Payment Date, and
  - (B) to the Liquidity Facility Provider of all amounts due or overdue to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement and the Issuer Deed of Charge, other than any Liquidity Subordinated Amounts, in the following order of priority:
    - (1) amounts of interest and commitment fees due or overdue to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement; and
    - (2) amounts of principal due or overdue to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement, provided that the amount that would otherwise be paid under this paragraph (B)(2) shall be reduced by the Liquidity Netting Amount in respect of such Interest Payment Date,
- (vii) *seventh*, to the Class A-1 Noteholders in or towards payment of all amounts of interest due or overdue in respect of the Class A-1 Notes other than any interest accrued on unpaid interest, and payment to Ambac of any amounts payable to Ambac by virtue of any right of subrogation of Ambac arising from payment by it of any interest in respect of the Class A-1 Notes;
- (viii) *eighth*, in or towards satisfaction of any amounts then due and payable to Ambac pursuant to the terms of the Financial Guarantee Reimbursement Agreement in reimbursement of amounts paid by Ambac under the Ambac Financial Guarantee, other than amounts paid in respect of principal on the Class A-1 Notes, or in reimbursement of amounts paid by Ambac under the Ambac Liquidity Facility Financial Guarantee, together in each case with any interest accrued on such amounts, and on amounts paid by Ambac under the Ambac Financial Guarantee in respect of principal on the Class A-1 Notes, while the same are outstanding under the Financial Guarantee Reimbursement Agreement (for the avoidance of doubt, the amounts in this item (viii) shall not include any Financial Guarantee Fees, premium, fees or other amounts provided for in item (iv) above), in the following order of priority:

- (A) interest on any amount paid by Ambac under the Ambac Liquidity Financial Guarantee;
  - (B) interest on any amount paid by Ambac under the Ambac Financial Guarantee; and
  - (C) the principal balance of any amount paid by Ambac under the Ambac Financial Guarantee (other than any amount paid in respect of principal on the Class A-1 Notes) or under the Ambac Liquidity Financial Guarantee;
- (ix) *ninth*, to the Class A-1 Noteholders in or towards payment of all amounts of principal outstanding on the Maturity Date in respect of the Class A-1 Notes, and payment to Ambac of any amounts payable to Ambac by virtue of any right of subrogation of Ambac arising from payment by it of any principal in respect of the Class A-1 Notes;
  - (x) *tenth*, in or towards satisfaction of any amounts then due and payable to Ambac pursuant to the terms of the Financial Guarantee Reimbursement Agreement in reimbursement of amounts paid by Ambac under the Ambac Financial Guarantee in respect of principal on the Class A-1 Notes;
  - (xi) *eleventh*, to the Class A-2 Noteholders in or towards payment of all amounts of interest due or overdue in respect of the Class A-2 Notes other than any interest accrued on unpaid interest.
  - (xii) *twelfth*, to the Class A-1 Noteholders in or towards payment of all amounts of principal outstanding (other than on the Maturity Date) in respect of the Class A-1 Notes, and payment to Ambac of any amounts payable to Ambac by virtue of any right of subrogation of Ambac arising from payment by it of any principal in respect of the Class A-1 Notes;
  - (xiii) *thirteenth*, to the Class A-1 Noteholders in or towards payment of any amount of interest due or overdue in respect of the Class A-1 Notes not paid under item (vii) above;
  - (xiv) *fourteenth*, to the Class A-2 Noteholders in or towards satisfaction in or towards payment of any amount of interest due or overdue in respect of the Class A-2 Notes not paid under item (xi) above;
  - (xv) *fifteenth*, to the Class A-2 Noteholders in or towards payment of all amounts of principal outstanding in respect of the Class A-2 Notes;
  - (xvi) *sixteenth*, in or towards payment, *pro rata*, according to the respective amounts due, (A) to the Liquidity Facility Provider of all Liquidity Facility Subordinated Amounts and (B) to Ambac of all amounts due under Clause 6.5 of the Financial Guarantee Reimbursement Agreement;
  - (xvii) *seventeenth*, in or towards payment of or provision for Third-Party Expenses to the extent greater (in aggregate) than the Third-Party Expenses Cap;
  - (xviii) *eighteenth*, in or towards payment of any amounts owed by the Issuer to the Issuer Expenses Loan Provider under the Issuer Expenses Loan Agreement;
  - (xix) *nineteenth*, in or towards payment of indemnity and other amounts due to the Lead Managers and Ambac under the Subscription Agreement;

- (xx) *twentieth*, in or towards payment to any Transaction Party or any Noteholder of any other amount owing to such Transaction Party or Noteholder under or in connection with any Transaction Document, the Notes or the Prospectus; and
- (xxi) *twenty-first*, in payment of the remainder, if any, to the Issuer on the Maturity Date;

provided that:

- (A) amounts withdrawn from the Issuer Expenses Reserve Account may be used only in or towards payment of amounts in item (i), (ii), (iii), (iv), (xvii), (xix) or (xx) (except amounts owing to Noteholders or any Transaction Party in connection with amounts payable on the Notes);
- (B) amounts drawn down under the Liquidity Facility Agreement may be used only in or towards payment of amounts in item (vi) or (vii); and
- (C) amounts withdrawn from the Issuer Liquidity Reserve Account may be used only in or towards payment of amounts in item (vi)(B) or (vii).

#### *Priority of Payments Following Enforcement*

- (n) (a) Any and all Available Funds arising following delivery of an Enforcement Notice but prior to enforcement of the Issuer Security shall on each Interest Payment Date, and (b) all monies received or recovered by the Security Trustee or the Receiver in respect of the Secured Obligations following enforcement of the Issuer Security shall be applied in the payment of the following amounts (in each case, together with any interest thereon and, in each case, except in the case of amounts of interest due or overdue in respect of the Notes, together with any VAT thereon, as provided for in the relevant Transaction Documents and the Master Definitions and Framework Deed) in the following order of priority (the “**Post-Enforcement Priority of Payments**”) (and in each case only if and to the extent that payments of a higher order of priority have been made in full and to the extent of the funds permitted to be applied in respect thereof in accordance with the proviso to this Condition 3(n)), 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 due, of (A) the remuneration and other amounts due to any Receiver and any costs, charges, liabilities and expenses incurred by it, (B) the remuneration and other amounts (if any) due to the Note Trustee and any costs, charges, liabilities and expenses incurred by it for which it is entitled to be reimbursed or indemnified under the Trust Deed and the Issuer Deed of Charge and (C) the remuneration and other amounts due to the Security Trustee and any costs, charges, liabilities and expenses incurred by it for which it is entitled to be reimbursed or indemnified under the Issuer Deed of Charge (in each case, other than any amounts due on the Notes);
  - (ii) *second*, in or towards satisfaction, *pro rata* according to the respective amounts due, of (A) the remuneration and other amounts due to the Paying Agents, the Registrar and the Agent Bank and any costs, charges, liabilities and expenses incurred by any of them for which any of them is entitled to be reimbursed or indemnified under the Agency Agreement and the Issuer Deed of Charge, (B) the remuneration and other amounts due to the Account Bank and any costs, charges, liabilities and expenses incurred by it for which it is entitled to be reimbursed or indemnified under the Account Bank Agreement and the Issuer Deed of Charge, (C) the remuneration and other amounts due to the Issuer Corporate Services Provider and any costs, charges, liabilities and expenses incurred by it for which it is entitled to be reimbursed or indemnified under the Issuer Corporate Services Agreement and the Issuer Deed of

Charge and (D) the remuneration and other amounts due to the Issuer Cash Manager and any costs, charges, liabilities and expenses incurred by it for which it is entitled to be reimbursed or indemnified under the Cash Management Agreement and the Issuer Deed of Charge;

- (iii) *third*, in or towards payment of or provision for sums due to Third-Party Expenses, to the extent (in aggregate) less than or equal to the Third-Party Expenses Cap;
- (iv) *fourth*, in or towards satisfaction of the amounts then due in respect of the Financial Guarantee Fees, premium, fees and other amounts payable (other than (i) in reimbursement of amounts paid by Ambac under the Ambac Financial Guarantee or the Ambac Liquidity Facility Financial Guarantee or (ii) in compensation for any costs to Ambac under Clause 6.5 of the Financial Guarantee Reimbursement Agreement) (if any) payable to Ambac pursuant to the terms of the Financial Guarantee Reimbursement Agreement (including any interest thereon);
- (v) *fifth*, in or towards satisfaction of any amounts payable to the Limited Partnership in repayment of any Additional Amounts (as defined in the Limited Partnership Agreement) paid by the Limited Partnership in respect of the IL Loan and the SLLPI (but only to the extent the Issuer has recovered the tax withheld in respect of such Additional Amounts);
- (vi) *sixth*, in or towards payment, in the following order of priority,
  - (A) if (w) the Maturity Date has not yet occurred, (x) the Liquidity Facility has been fully drawn in respect of a Prefunded Liquidity Reserve Advance, (y) such Prefunded Liquidity Reserve Advance has been credited to the Issuer Liquidity Reserve Account and (z) under the terms of the Liquidity Facility Agreement no Prefunded Liquidity Reserve Advance is as yet required to be repaid, to the Issuer Liquidity Reserve Account of such amount as would maintain the balance of the Issuer Liquidity Reserve Account at, or increase it to, an amount equal to the then maximum commitment of the Liquidity Facility Provider under the Liquidity Facility Agreement (ignoring the effect of any Liquidity Subordinated Amounts), provided that the amount that would otherwise be credited to the Issuer Liquidity Reserve Account under this paragraph (A) shall be reduced by the Liquidity Reserve Netting Amount in respect of such Interest Payment Date, and
  - (B) to the Liquidity Facility Provider of all amounts due or overdue to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement and the Issuer Deed of Charge, other than any Liquidity Subordinated Amounts, in the following order of priority:
    - (1) amounts of interest and commitment fees due or overdue to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement; and
    - (2) amounts of principal due or overdue to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement, provided that the amount that would otherwise be paid under this paragraph (B)(2) shall be reduced by the Liquidity Netting Amount in respect of such Interest Payment Date,
- (vii) *seventh*, to the Class A-1 Noteholders in or towards payment of all amounts of interest due or overdue in respect of the Class A-1 Notes other than any interest accrued on



unpaid interest, and payment to Ambac of any amounts payable to Ambac by virtue of any right of subrogation of Ambac arising from payment by it of any interest in respect of the Class A-1 Notes;

- (viii) *eighth*, in or towards satisfaction of any amounts then due and payable to Ambac pursuant to the terms of the Financial Guarantee Reimbursement Agreement in reimbursement of amounts paid by Ambac under the Ambac Financial Guarantee, other than amounts paid in respect of principal on the Class A-1 Notes, or in reimbursement of amounts paid by Ambac under the Ambac Liquidity Facility Financial Guarantee, together in each case with any interest accrued on such amounts, and on amounts paid by Ambac under the Ambac Financial Guarantee in respect of principal on the Class A-1 Notes, while the same are outstanding under the Financial Guarantee Reimbursement Agreement (for the avoidance of doubt, the amounts in this item (viii) shall not include any Financial Guarantee Fees, premium, fees or other amounts provided for in item (iv) above), in the following order of priority:
  - (A) interest on any amount paid by Ambac under the Ambac Liquidity Financial Guarantee;
  - (B) interest on any amount paid by Ambac under the Ambac Financial Guarantee; and
  - (C) the principal balance of any amount paid by Ambac under the Ambac Financial Guarantee (other than any amount paid in respect of principal on the Class A-1 Notes) or under the Ambac Liquidity Financial Guarantee;
- (ix) *ninth*, to the Class A-1 Noteholders in or towards payment of all amounts of principal outstanding on the Maturity Date in respect of the Class A-1 Notes, and payment to Ambac of any amounts payable to Ambac by virtue of any right of subrogation of Ambac arising from payment by it of any principal in respect of the Class A-1 Notes;
- (x) *tenth*, in or towards satisfaction of any amounts then due and payable to Ambac pursuant to the terms of the Financial Guarantee Reimbursement Agreement in reimbursement of amounts paid by Ambac under the Ambac Financial Guarantee in respect of principal on the Class A-1 Notes;
- (xi) *eleventh*, to the Class A-1 Noteholders in or towards payment of all amounts of principal outstanding (other than on the Maturity Date) in respect of the Class A-1 Notes, and payment to Ambac of any amounts payable to Ambac by virtue of any right of subrogation of Ambac arising from payment by it of any principal in respect of the Class A-1 Notes;
- (xii) *twelfth*, to the Class A-1 Noteholders in or towards payment of any amount of interest due or overdue in respect of the Class A-1 Notes not paid under item (vii) above;
- (xiii) *thirteenth*, to the Class A-2 Noteholders in or towards satisfaction of all amounts of interest due or overdue in respect of the Class A-2 Notes;
- (xiv) *fourteenth*, to the Class A-2 Noteholders in or towards payment of all amounts of principal outstanding in respect of the Class A-2 Notes;
- (xv) *fifteenth*, in or towards payment, *pro rata*, according to the respective amounts due, (A) to the Liquidity Facility Provider of all Liquidity Facility Subordinated Amounts and (B) to Ambac of all amounts due under Clause 6.5 of the Financial Guarantee Reimbursement Agreement;

- (xvi) *sixteenth*, in or towards payment of any amounts owed by the Issuer to the Issuer Expenses Loan Provider under the Issuer Expenses Loan Agreement;
- (xvii) *seventeenth*, in or towards payment of indemnity and other amounts due to the Lead Managers and Ambac under the Subscription Agreement;
- (xviii) *eighteenth*, in or towards payment to any Transaction Party or any Noteholder of any other amount owing to such Transaction Party or Noteholder under or in connection with any Transaction Document, the Notes or the Prospectus;
- (xix) *nineteenth*, in or towards payment of or provision for Third-Party Expenses to the extent greater (in aggregate) than the Third-Party Expenses Cap; and
- (xx) *twentieth*, in payment of the remainder, if any, to the Issuer on the Maturity Date;

provided that:

- (A) amounts withdrawn from the Issuer Expenses Reserve Account may be used only in or towards payment of amounts in item (i), (ii), (iii), (iv), (xvii), (xviii) or (xix) (except amounts owing to Noteholders or any Transaction Party in connection with amounts payable on the Notes);
- (B) amounts drawn down under the Liquidity Facility Agreement may be used only in or towards payment of amounts in item (vi) or (vii); and
- (C) amounts withdrawn from the Issuer Liquidity Reserve Account may be used only in or towards payment of amounts in item (vi)(B) or (vii).

#### 4. COVENANTS

The Issuer has given certain covenants to the Note Trustee and the 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 and the Security Trustee or as expressly provided in these Conditions or any of the other Transaction Documents, the Issuer shall not:

##### *Negative Pledge*

- (a) create or permit to subsist any Security Interest (unless arising by operation of law) over the whole or any part of its present or future assets, revenues or undertaking or the Issuer Charged Property;

##### *Restrictions on Activities*

- (b) carry on any business other than as described in the Prospectus 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;
  - (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, revenues or undertaking or any interest, right or benefit in respect of any of them or agree or purport to do so;

*Indebtedness and loans*

- (d) create, incur or permit to subsist any Indebtedness, make any loans, grant any credit 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;

*Acquisition of Assets*

- (g) acquire or agree to acquire any assets save in accordance with or as a result of the exercise of rights under or for the proper discharge of its obligations as contemplated by the Transaction Documents;

*Merger*

- (h) amalgamate, consolidate or merge with any other person or transfer its assets, revenues or undertaking to any other person;

*No Variation or Waiver*

- (i) permit:
  - (i) its constitutional documents to be amended, supplemented or otherwise modified;
  - (ii) any of the Transaction Documents to which it is a party to become invalid or ineffective;
  - (iii) the priority of the Issuer Security to be altered, released, subordinated, postponed or discharged or consent to any amendment to, or exercise any powers of consent or waiver pursuant to the terms of, any of those Transaction Documents; or
  - (iv) any party to any of those Transaction Documents or any other person whose obligations form part of the Issuer Security or the Issuer Charged Property to be released from its obligations;

*Bank Accounts*

- (j) have an interest in any bank account other than the Issuer Accounts and the Issuer Share Capital Account, unless that account or interest is charged to the Security Trustee on terms acceptable to the Security Trustee;

*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, 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;

*Tax Residence*

- (l) become tax resident in any country outside Luxembourg, save in the event of substitution pursuant to Condition 14 (*Substitution of Principal Debtor*);

*COMI*

- (m) (A) maintain its registered office other than in the jurisdiction of its incorporation and (B) maintain its "centre of main interests" for the purposes of the Insolvency Regulation other than in the jurisdiction of its incorporation; or

*No participation in the management of the Limited Partnership*

- (n) take any part in the management of the Limited Partnership (either itself or through other persons) or take any action which purports to bind the Limited Partnership in a manner contrary to Section 6(1) of the Limited Partnerships Act of the United Kingdom;

*Establishment*

- (o) maintain an "establishment" (as that expression is used in the Insolvency Regulation) in any jurisdiction other than the jurisdiction of its incorporation;

*Liquidity Facility*

- (p) fail to maintain the Liquidity Facility or a replacement facility for the same amount and on substantially the same terms provided by a bank or banks with the Required Ratings;

*Repudiation*

- (q) terminate, repudiate, rescind or discharge any relevant Transaction Document to which it is party or to permit any person to do so or take any action, or fail to take any action, if such action or failure to take action may interfere with the enforcement of any rights under the Transaction Documents with respect to the rights, benefits or obligations of the Note Trustee or the Security Trustee; or

*Settlement of litigation*

- (r) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets.

**5. INTEREST**

*Period of Accrual*

- (a) Each Note bears interest on its principal amount 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 that 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, and provided that payment is made in full when the Note is subsequently presented) the seventh day after notice is given by the Principal Paying Agent to the relevant Noteholder in accordance with Condition 18 (*Notices and Information*) that, upon presentation of that Note being duly made, such payment will be made.

*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 (*Payment*).

*Rate of Interest*

- (c)
  - (i) The rate of interest payable from time to time in respect of each Class of 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 each Class of Notes for each Interest Period shall be the aggregate of:
    - (A) the Relevant Margin; and
    - (B) EURIBOR.
  - (iii) For the purposes of these Conditions, the "**Relevant Margin**" shall be:

(A) for the Class A-1 Notes, 0.75 per cent. *per annum*; and

(B) for the Class A-2 Notes, 3.09 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, Ambac and the Paying Agents in respect of each Class of Notes:

(i) the Rate of Interest applicable to the relevant Interest Period; and

(ii) the amount of interest due on each Note of each Class for the relevant Interest Period which shall be an amount (the “**Interest Amount**”) equal to the product of:

(A) an amount equal to the product of (aa) the Rate of Interest for that Class of Note 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 in respect of such Note); and

(B) an amount equal to the quotient of (aa) the actual number of days in the relevant Interest Period and (bb) a 360 day year.

The resulting figure shall be rounded down to the nearest cent.

*Publication of Rate of Interest, 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 arrange for the Rate of Interest and the Interest Amount for each denomination of €100,000 and for a nominal amount of €1,000 in respect of each Class of 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 Official List) and to be published in accordance with Condition 18 (*Notices and Information*). The Interest Amount for each denomination of €100,000 and for a nominal amount of €1,000 and the 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 at any time for any reason the Agent Bank does not determine the Rate of Interest and/or calculate the Interest Amount for each denomination in respect of any Class of Notes for any Interest Period in accordance with this Condition 5 (*Interest*), the Note Trustee (or an agent appointed by it for the purpose) shall do so.

Any such determination or calculation shall be deemed to have been made by the Agent Bank and the Agent Bank shall be liable as if it had made that determination or calculation. In making any such determination or calculation, the Note Trustee (or an agent appointed by it for the purpose) shall apply the provisions of this Condition 5 (*Interest*), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it considers fair and reasonable in all the circumstances.

#### *Agent Bank*

- (g) The Issuer shall ensure that, for 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, Ambac and the Rating Agencies by the outgoing Agent Bank in accordance with Condition 18 (*Notices and Information*).

#### *Accrual*

- (h) The amount by which, as a result of an insufficiency of Available Funds, the aggregate amount of interest paid on any Class of Notes on any Interest Payment Date in accordance with this Condition 5 (*Interest*) falls short of the aggregate amount of interest due and payable on the relevant Notes on that date shall accrue interest while it remains outstanding at the Rate of Interest for that Class of Note 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 the relevant Class of Notes and, subject as provided below, be payable on the next succeeding Interest Payment Date.

#### *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 (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 any other person in connection with the exercise or non-exercise by any of them of their rights, powers, duties and discretions under these Conditions.

#### *Class A-1 Note Interest*

- (j) If, on an Interest Payment Date, the Issuer has insufficient Available Funds to be able to pay in full the interest on the Class A-1 Notes that is due on such Interest Payment Date under item (vii) in Condition 3(m) or item (vii) in Condition 3(n), the Issuer (or the Issuer Cash Manager) shall draw under the Liquidity Facility Agreement (subject to the satisfaction of certain conditions precedent as specified therein) or withdraw from the Issuer Liquidity Reserve Account such amount as would be necessary to make up the shortfall (having regard to any Liquidity Netting Amount or Liquidity Reserve Netting Amount in respect of such Interest Payment Date), subject to a maximum limit on the amount capable of being outstanding at any time under the Liquidity Facility Agreement and not credited to the Issuer Liquidity Reserve Account, which limit on the Closing Date is €7,000,000.

### **6. REDEMPTION, PURCHASE AND CANCELLATION**

#### *Final Redemption*

- (a) Subject to Condition 6(e) (*Redemption, Purchase and Cancellation – Limited Recourse*), unless previously redeemed in full and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date together with interest and other amounts (if any) accrued to the Maturity Date. The Class A-1 Notes will be redeemed in full in priority to the Class A-2 Notes.

### *Note Principal Payments*

- (b) If, in respect of an Interest Payment Date, as a result of the application of (i) Available Funds in the order of priority set out in Condition 3(m) (*Status, Priority and Security - Priority of Payments Prior to Enforcement*); or (ii) the application of all monies received or recovered by the Security Trustee or Receiver on or following delivery of an Enforcement Notice in the order of priority set out in Condition 3(n) (*Status, Priority and Security - Priority of Payments Following Enforcement*) any amount is available to be applied to redeem Notes of any Class, each Note of that Class will be redeemed in an amount (the “**Note Principal Payment**”) equal to the Available Funds or all monies received or recovered by the Security Trustee or Receiver, as the case may be, to be so applied to that Class divided by the number of Notes of that Class and rounded down to the nearest euro.

### *Principal Amount Outstanding and Pool Factor*

- (c) With respect to each Class on (or as soon as practicable after) each Calculation Date, the Agent Bank shall:
- (i) determine the amount of the Note Principal Payment (if any) due on the Interest Payment Date next following such Calculation Date in respect of each €1,000 of the initial principal amount of a Note of that Class;
  - (ii) determine the principal amount of each €1,000 of the initial principal amount of a Note of that Class on issue less the aggregate of all Note Principal Payments per €1,000 of the initial principal amount that have become due and payable in respect of that Note (whether or not paid) on or prior to the Interest Payment Date next following such Calculation Date (the “**Principal Amount Outstanding**”); and
  - (iii) determine the fraction expressed as a decimal to the ninth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Note of that Class referred to in paragraph (ii) above and the denominator is €1,000.

The Agent Bank will cause each determination of a Note Principal Payment per €1,000 of the initial principal amount of a Note, the Principal Amount Outstanding and the Pool Factor to be notified 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 Official List) the Stock Exchange, and will cause notice of each such determination to be given in accordance with Condition 18 (Notices and Information) not less than three Business Days prior to the relevant Interest Payment Date. If no Note Principal Payment is due to be made on the Notes of any Class on any Interest Payment Date a notice to this effect will be given by the Agent Bank to the Noteholders.

If at any time for any reason the Agent Bank does not determine a Note Principal Payment, the Principal Amount Outstanding or the Pool Factor for any Class of Notes in accordance with this Condition 6 (*Redemption, Purchase and Cancellation*), the Note Trustee (or an agent appointed by it for the purpose) shall do so.

Any such determination shall be deemed to have been made by the Agent Bank and the Agent Bank shall be liable as if it had made that determination. In making any such determination, the Note Trustee (or any agent appointed by it for the purpose) shall apply the provisions of Condition 6(c) (*Redemption, Purchase and Cancellation – Principal Amount Outstanding and Pool Factor*), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it considers fair and reasonable in all the circumstances.



#### *Cancellation*

- (d) All Notes redeemed in full under this Condition 6 (*Redemption, Purchase and Cancellation*) or otherwise surrendered under Condition 17 (*Replacement of Notes*) will be cancelled upon redemption or surrender and may not be resold or re issued.

#### *Limited Recourse*

- (e) The only assets of the Issuer available to meet the claims of, amongst others, the Noteholders will be the assets subject to the Issuer Security. Any claim (other than those for which a provision has been made in accordance with the applicable Priority of Payments) remaining unsatisfied after the realisation of the Issuer Security and the application of the proceeds thereof in accordance with the applicable Priority of Payments shall be extinguished and the Noteholders shall have no rights in respect of any such claims.

#### *Acceleration*

- (f) If (i) an Insolvency Event in respect of the Issuer has occurred and is continuing and (ii) an Acceleration Event (as defined under the Limited Partnership Agreement) has occurred and has not been waived or cured in accordance with the terms of the Limited Partnership Agreement, the Notes shall immediately become due and payable at their Principal Amount Outstanding together with accrued interest up to (but excluding) the date on which the full amount (together with accrued interest) is paid to the Noteholders and all amounts due to Ambac under the Financial Guarantee Reimbursement Agreement have been paid in full.

#### *No Purchase by Issuer*

- (g) None of the Issuer, the General Partner, any Limited Partner or any Bank of Ireland Group entity will be permitted to purchase any of the Notes.

### **7. PAYMENTS**

#### *Payments of principal and interest in respect of Notes*

- (a) Payments of principal and interest in respect of the Notes shall, subject as mentioned below, be made to the holders shown on the register of Noteholders at the close of business on the date being the fifteenth day before the relevant Interest Payment Date and, in the case of payments of interest and principal due on final redemption of the Notes, upon surrender of the relevant Notes, as the case may be, at the specified office of any Paying Agent.

#### *Currency of Payment*

- (b) Payments in respect of the Notes will be made in Euro by cheque drawn on a bank in the euro-zone or, at the option of the Noteholder, by transfer to a Euro account maintained by the payee.

#### *Payments subject to the Issuer Deed of Charge and all Fiscal Laws*

- (c) Payments of principal, interest and other amounts (if any) in respect of the Notes are subject in all cases to the relevant Priority of Payments and the Issuer Deed of Charge and to any fiscal or other laws and regulations applicable thereto.

#### *Payment of Interest on Withheld Amounts*

- (d) If payment of principal on or in respect of any Note or part thereof is not made when due or is otherwise improperly withheld or refused, the interest which continues to accrue in respect of

such Note in accordance with Condition 5(a) (*Interest – Period of Accrual*) will become due and payable on the date on which such principal is paid.

#### *Paying Agents*

- (e) The initial Principal Paying Agent, the Registrar and the other Paying Agents and their respective initial specified offices are listed at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Note Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, the Registrar and/or the other Paying Agents and to appoint additional or other paying agents. 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 is to take effect give notice of such change to the Noteholders in accordance with Condition 18 (*Notices and Information*). For so long as any Note is outstanding, the Issuer agrees that there will at all times be a Paying Agent in a state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

#### *Payments on Business Days*

- (f) If any Note is presented for payment on a day which is not a business day in the place of presentation, then the holder shall not be entitled to payment in such place until the next succeeding business day in such place and no further payment or additional amount by way of interest, principal or otherwise shall be due in respect of such Note.

### **8. PRESCRIPTION**

#### *General*

- (a) After the date on which a Note 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 Relevant Date.

#### *Interest*

- (c) Claims for interest in respect of Notes shall become void unless the relevant Notes are, or while any Notes are represented by a Global Note, the relevant Global Note is, presented for payment within five years of the Relevant Date.

### **9. TAXATION**

All payments in respect of the Notes 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 law 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. 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 in respect of such withholding or deduction.

## 10. ISSUER ENFORCEMENT EVENTS

### *Determination of an Issuer Enforcement Event and notice of intention to enforce*

(a) The Note Trustee (subject in each case to being indemnified and/or otherwise secured to its satisfaction in accordance with the Trust Deed), at any time after the occurrence of any of the events specified in Condition 10(b) (*Issuer Enforcement Events - Events*):

(i) may, in its absolute discretion if Ambac is no longer the Controlling Creditor; and

(ii) shall, if it has been directed to do so:

(A) (i) if Ambac is the Controlling Creditor, in writing by Ambac, or (ii) if Ambac is no longer the Controlling Creditor, in writing by the holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class (without counting any Excluded Notes of that Class); or

(B) if Ambac is no longer the Controlling Creditor, by an Extraordinary Resolution of the holders of the Most Senior Class other than the Excluded Notes of that Class,

give a notice (a "**Note Default Notice**") to the Issuer stating that the Note Trustee will instruct the Security Trustee to take enforcement steps in relation to the Issuer Security.

### *Events*

(b) The occurrence of any of the following events shall be an "**Issuer Enforcement Event**":

(i) default being made for a period of five days or more in the payment of any principal of, any interest or other amount (if any) on, any Class of Notes when due unless such non-payment is due to an insufficiency of Available Funds (except on the Maturity Date, as to which non-payment due to an insufficiency of Available Funds shall be an Issuer Enforcement Event);

(ii) the Issuer failing duly to perform or observe any obligation other than that specified in (i) above binding upon it under the Notes, the Ambac Financial Guarantee, the Financial Guarantee Reimbursement Agreement, the Issuer Ambac Fee Letter, the Trust Deed, the Issuer Deed of Charge or any of the other Transaction Documents and such failure (A) being in the opinion of the Note Trustee incapable of remedy or (B) being a failure which is, in the opinion of the Note Trustee, capable of remedy, but which remains unremedied for a period of 21 days following the giving by the Note Trustee, to the Issuer of notice requiring the same to be remedied and, in either case, provided that the Note Trustee shall have determined that such event is, in its opinion, materially prejudicial to the interests of one or more Classes of Noteholders;

(iii) the Issuer, otherwise than for the purpose of a merger, reorganisation or amalgamation on terms approved in writing by the Controlling Creditor or, if Ambac is not the Controlling Creditor, by an Extraordinary Resolution of the Noteholders, ceasing to carry on business;

(iv) any of the following occurs with respect to the Issuer:

(A) it is, or is deemed for the purposes of any law to be, unable to pay its debts as they fall due or insolvent;

- (B) it admits its inability to pay its debts as they fall due; or it suspends making payments on any of its debts or announces an intention to do so; or
- (C) an Insolvency Event occurs with respect to the Issuer;
- (v) any event occurs which under any applicable laws has an analogous effect to any of the events referred to in paragraphs (iii) and (iv) above;
- (vi) the Issuer Security (or any part thereof) is repudiated 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 after the expiry of any period allowed by the Transaction Document for the mitigation thereof;
- (vii) the termination of the Limited Partnership Agreement, the General Partner Keepwell Agreement or the Support Agreement, or any of them becoming unenforceable;
- (viii) the dissolution of the Limited Partnership;
- (ix) the Issuer paying or becoming required to pay any amount by way of indemnity to the Lead Managers or Ambac pursuant to the Subscription Agreement;
- (x) the General Partner receiving a payment of capital or profits out of the Limited Partnership;
- (xi) the Issuer being required to pay any amount to any person otherwise than as required by a Transaction Document to which it is a party;
- (xii) the occurrence of a Failure to Transfer Deposit Event; or
- (xiii) an Ambac Event of Default occurs.

*Non-payment of Amounts*

- (c) Notwithstanding Condition 10(b) (*Issuer Enforcement Events – Events*), except in respect of the Maturity Date, a failure by the Issuer to pay in full any amount due and payable by it on account of insufficient Available Funds for such amount under the relevant Priority of Payments shall not constitute an Issuer Enforcement Event.

*Enforcement Notice*

- (d) Under the terms of the Issuer Deed of Charge, if the Note Trustee provides the Security Trustee with a copy of a Note Default Notice given to the Issuer and instructs it to take enforcement steps in relation to the Issuer Security, the Security Trustee is required to give a notice (an “**Enforcement Notice**”) to the Issuer declaring the whole of the Issuer Security to be enforceable. At any time after a Note Default Notice has been delivered, the Note Trustee without further notice shall, (for so long as Ambac is the Controlling Creditor) if so directed by Ambac, direct the Issuer Security Trustee to take proceedings against the Issuer to enforce the Issuer Security (provided that it shall not be bound to direct the Security Trustee to take such proceedings against the Issuer unless it shall have been indemnified and/or secured to its satisfaction) and the Security Trustee shall enforce the Issuer Security in accordance with the provisions of the Issuer Deed of Charge.

## 11. NOTEHOLDER ACTION

### *Limit on Noteholder Action*

- (a) (Subject to Condition 11(b) (*Noteholder Action – Exceptions*), no Noteholder shall be entitled to take any proceedings or other action directly against the Issuer including:
- (i) directing the Note Trustee to instruct the Security Trustee to enforce the Issuer Security;
  - (ii) taking or joining any person in taking steps against the Issuer for the purpose of obtaining payment of any amount due from the Issuer to it;
  - (iii) initiating or joining 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 part of the undertakings or assets of the Issuer; and
  - (iv) taking any steps or proceedings that would result in the relevant Priority of Payments in the Issuer Deed of Charge not being observed.

### *Exceptions*

- (b) If the Note Trustee, having become bound to instruct the Security Trustee to give an Enforcement Notice to the Issuer and enforce the Issuer Security, fails to do so within a reasonable time and that failure is continuing, then, if Ambac is not the Controlling Creditor, the holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class other than the Excluded Notes of that Class may instruct the Security Trustee to give an Enforcement Notice to the Issuer in accordance with Condition 10(d) (*Issuer Enforcement Events- Enforcement Notice*) and enforce the Issuer Security.

## 12. MEETINGS OF NOTEHOLDERS

### *Convening of Meeting*

- (a) The Trust Deed contains provisions for convening Meetings of Noteholders or of any one or more Classes of Noteholders to consider any matter affecting their interests.

### *Excluded Notes*

- (b) The Provisions for Meetings of Noteholders provide that a holder of Excluded Notes shall not be entitled to vote at any Meeting.

### *Powers*

- (c) A Meeting will have the power, exercisable by Extraordinary Resolution, to make certain decisions, including to approve the modification, and to authorise or waive any proposed breach or breach, of the Trust Deed, these Conditions and any other Transaction Document.

Any Basic Terms Modification must be approved by an Extraordinary Resolution of the Noteholders of each Class.

An Extraordinary Resolution of the Noteholders of any Class to approve any matter other than a Basic Terms Modification shall be binding on the Noteholders of each Class ranking junior to such Class but shall not be binding on the Noteholders of any Class ranking *pari passu* with or senior to such Class (each such Class a “**Relevant Class**”) unless either (x) that matter is approved by an Extraordinary Resolution of the Noteholders of each of the Relevant Classes

or (y) the Note Trustee has determined that such matter is not materially prejudicial to the Noteholders of each of the Relevant Classes. For this purpose the Classes rank in the following order:

- (i) *first*, the Class A-1 Notes; and
  - (ii) *second*, the Class A-2 Notes.
- (d) 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.

*Quorum*

- (e) The quorum at any Meeting originally convened or adjourned and reconvened except for lack of a quorum shall, subject as provided below, be at least two voters representing the proportion of the Notes of the relevant Class or Classes shown by the table below:

To pass an Extraordinary Resolution involving a Basic Terms Modification:	75 per cent.
To pass any other Extraordinary Resolution:	More than 50 per cent.
Any other purpose:	10 per cent.

The quorum at any Meeting adjourned for lack of a quorum and reconvened shall, subject as provided below, be at least two voters representing the proportion of the Notes of the relevant Class or Classes shown by the table below:

To pass an Extraordinary Resolution involving a Basic Terms Modification:	33 1/3 per cent.
To pass any other Extraordinary Resolution:	No minimum proportion
Any other purpose:	No minimum proportion

So long as all of the Notes or, as applicable, any Class of Notes are held by a single Noteholder, a single voter in relation thereto shall be deemed to be two voters for the purpose of forming a quorum.

*Separate Meetings of different Classes of Notes*

- (f) The following provisions shall apply where any matter, including the passing or rejection of any Extraordinary Resolution, falls to be considered where more than one Class of Notes is outstanding:
- (i) matters which the Note Trustee in its absolute discretion determines affect the Noteholders of only one Class shall be transacted at a separate Meeting of the Noteholders of that Class;

- (ii) matters which the Note Trustee in its absolute discretion determines affect the Noteholders of more than one Class but do not give rise to an actual or potential conflict of interest between the Noteholders of any such Class and the Noteholders of any other Class shall be transacted either at separate Meetings of the Noteholders of each such Class or at a single Meeting of the Noteholders of all affected Classes (who shall be treated as the holders of a single class of Notes for this purpose), as the Note Trustee determines in its absolute discretion; and
- (iii) matters which the Note Trustee in its absolute discretion determines affect the Noteholders of more than one Class and give rise, or may give rise, to an actual or potential conflict of interest between the Noteholders of any such Class and the Noteholders of any other Class shall be transacted at separate Meetings of the Noteholders of each such Class.

*Written Resolutions*

- (g) Any reference to an action being directed, authorised or approved by an Extraordinary Resolution of Noteholders or, as applicable, of Noteholders of a particular Class shall be deemed to include a reference to that matter being directed, authorised or approved by a Written Resolution of the Noteholders or, as applicable, of the Noteholders of a particular Class.

**13. MODIFICATION AND WAIVER OF BREACH**

*Modification*

- (a) The Note Trustee may, without the consent of the Noteholders, agree with the Issuer and Ambac (so long as Ambac is the Controlling Creditor) and any other affected party to any modification (other than a Basic Terms Modification) to the Trust Deed, these Conditions or any of the other Transaction Documents if, in the Note Trustee's opinion:
  - (i) it is not materially prejudicial to the interests of the Noteholders of either Class; and
  - (ii) save in respect of Reserved Matters, for so long as Ambac is the 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 30 Business Days of receipt by Ambac of notice of such proposed modification); or
  - (iii) it is to correct a manifest error or is, in the opinion of the Note Trustee, of a formal, minor or technical nature.

*Basic Terms Modification*

- (b) For so long as Ambac is the Controlling Creditor 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*

- (c) Subject as provided below, the Note Trustee may also, without the consent of the Noteholders, if in its opinion it will not be materially prejudicial to the interests of the Noteholders of either Class, concur (to the extent that its concurrence is necessary for such authorisation, waiver or determination to have effect) with the Issuer and Ambac (so long as Ambac is the Controlling Creditor) in:

- (i) authorising or waiving, on any terms and subject to any conditions which it considers appropriate, any proposed breach or breach of the Trust Deed, these Conditions or any other Transaction Document; or
- (ii) determining that any event that would otherwise constitute an Issuer Enforcement Event or potential Issuer Enforcement Event shall not, or shall not be subject to any conditions which it considers appropriate, be treated as such for the purposes of the Trust Deed and these Conditions,

provided always that:

- (iii) save in the case of Reserved Matters or any proposed breach which would have the same effect as a Basic Terms Modification, for so long as Ambac is the 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 30 Business Days of receipt by Ambac of notice of such proposed authorisation, waiver or modification); and
- (iv) unless Ambac is the Controlling Creditor, each Rating Agency has confirmed in writing that its then current rating of the Notes will not be downgraded as a result of such authorisation, waiver or determination.

The Note Trustee shall not exercise any powers conferred on it by this Condition 13(c) (*Modification and Waiver of Breach - Waiver of Breach*):

- (v) so as to authorise or waive any proposed breach or breach relating to any term the modification of which would be a Basic Terms Modification; or
  - (vi) in contravention of any direction given to it in accordance with Condition 10(a) (*Issuer Enforcement Events – Determination of an Issuer Enforcement Event and Instruction to Enforce*).
- (d) Save where the same would constitute a Reserved Matter or a Basic Terms Modification, Ambac may, where it is the Controlling Creditor, direct the Note Trustee:
- (i) to authorise or waive any proposed breach or breach of the Trust Deed, these Conditions or any other Transaction Document on any terms and subject to any conditions which Ambac in its sole discretion considers appropriate; or
  - (ii) to determine that any event that would otherwise constitute an Issuer Enforcement Event or potential Issuer Enforcement Event shall not, or shall not be subject to any conditions which Ambac in its sole discretion considers appropriate, be treated as such for the purposes of the Trust Deed and these Conditions;

and the Note Trustee shall comply with such direction provided that it is indemnified and/or secured to its satisfaction.

*Notice*

- (e) Unless the Note Trustee otherwise agrees, the Issuer shall give notice of any such modification, waiver, authorisation or determination to the Noteholders in accordance with Condition 18 (*Notices and Information*).



#### 14. SUBSTITUTION OF PRINCIPAL DEBTOR

The Trust Deed contains provisions permitting the Note Trustee, without the consent of the Noteholders, but subject to such amendment of the Trust Deed and such other conditions as the Note Trustee may require, to agree but subject to obtaining the prior written consent of Ambac (for so long as Ambac is the Controlling Creditor) to the substitution in place of the Issuer (or of any previous substitute) of another entity as principal debtor in respect of the Trust Deed, the Notes and in connection with any proposed substitution, to a change of the law governing the Trust Deed, the Notes and/or any other Transaction Document if, among other things, any change in governing law will not, in the Note Trustee's opinion, be materially prejudicial to the interests of the Noteholders of any Class and Ambac consents (for so long as Ambac is a Controlling Creditor) and the Rating Condition is satisfied. Any such entity shall be a newly formed single purpose company which, among other things, undertakes to be bound by the Trust Deed, the Notes and the other Transaction Documents.

#### 15. NOTE TRUSTEE AND SECURITY TRUSTEE

##### *Actions Binding*

- (a) Each of the Note Trustee and the Security Trustee shall (except as expressly provided otherwise in the Trust Deed or the other Transaction Documents) have absolute discretion as to whether and how it exercises or performs each of its trusts, powers, authorities, duties, discretions and obligations under or in connection with the Transaction Documents or conferred on it by operation of law and its decision as to whether and how to exercise or perform those trusts, powers, authorities, duties, discretions and obligations and any action taken or omitted in consequence shall, as between itself and the Noteholders, be conclusive and binding on the Noteholders, provided that any determination or calculation made by the Note Trustee pursuant to Condition 5(f) (*Interest – Determination or Calculation by Note Trustee*) or Condition 6(b) (*Redemption, Purchase and Cancellation – Note Principal Payments*) shall only be binding in the absence of manifest error. So long as Ambac is the Controlling Creditor (save in respect of any Basic Terms Modification or Reserved Matters), neither the Note Trustee nor the Security Trustee will take any steps to enforce any provision of any of the Transaction Documents or enforce the Issuer Security or to take any other action in relation to the Transaction Documents, unless so directed in writing by Ambac and indemnified and/or secured to its satisfaction and subject as aforesaid the Note Trustee or the Security Trustee (as the case may be) will be obliged to take such steps or other action upon being so directed and so indemnified and/or secured.

Neither the Note Trustee nor the Security Trustee shall be obliged to take any action (including, without limitation, enforcement of obligations or exercise of rights and powers) under any of the Transaction Documents unless directed to do so by the Controlling Creditor and indemnified and/or secured to its satisfaction. When acting at the instruction of the Controlling Creditor (or, if applicable, the Note Trustee), the Security Trustee shall have no duty to take into account the interest of the other Secured Creditors and no liability for acting in accordance with such directions. Where the Note Trustee is the Controlling Creditor it shall not be obliged to take any such action unless directed so to do by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or an Extraordinary Resolution of the holders of the Most Senior Class which in each case shall be binding on all Noteholders and the other parties.

Unless the Security Trustee is satisfied that it will not incur any liability arising from it enforcing the Issuer Security, or is appropriately indemnified in respect of any such liability, it will not enforce the Issuer Security when required to do so by the Controlling Creditor (or by the Note Trustee acting on the instructions of Ambac if it is then Controlling Creditor) and shall not be liable to anyone for any loss occasioned thereby.

*Limitation on Note Trustee's and Security Trustee's Liability; Right to Indemnity*

- (b) The Trust Deed and the Issuer Deed of Charge contain provisions:
- (i) giving various powers, authorities and discretions to the Note Trustee and the Security Trustee in addition to those conferred by law including those referred to elsewhere in these Conditions;
  - (ii) specifying various matters in respect of which the Note Trustee or, as applicable, the Security Trustee is to have (A) no duty or responsibility to make any investigation to supervise or to enforce and (B) no liability or responsibility to the Noteholders in the absence of wilful default, negligence or fraud or, in the case of certain matters, in any circumstances; and
  - (iii) entitling the Note Trustee or, as applicable, the Security Trustee to indemnification and/or security and providing that neither of them are not obliged to take any steps, proceedings or other action at the request or direction of any person unless it has been indemnified or otherwise secured to its satisfaction.
- (c) Neither the Note Trustee nor the Security Trustee will be responsible for or liable for loss which results should any deficiency arise between the amount realised in respect of the property assets and rights over which security is given by the Transaction Documents and sums due in respect of the Notes because the Security Trustee or the Note Trustee is liable for tax in respect of the property assets and rights over which such security is created.

Neither the Note Trustee nor the Security Trustee shall be responsible for monitoring the obligations of any person to the Issuer and each of them shall, until they have actual knowledge to the contrary, assume that all such persons are duly performing the same.

*Note Trustee, Security Trustee and Issuer Security*

- (d) Neither the Note Trustee nor the Security Trustee shall be responsible for matters relating to the Issuer Security or the Issuer Charged Property including:
- (i) the nature, value, sufficiency, collectability or enforceability of the Issuer Charged Property;
  - (ii) the registration, perfection or priority of the Issuer Security;
  - (iii) the Issuer's title to the Issuer Charged Property; or
  - (iv) the compliance of the Issuer Charged Property or the Issuer Security with any applicable criteria or performance measures.

Subject to the provision of the Trust Deed relating to the Basic Terms Modifications and Reserved Matters, the Note Trustee shall not exercise any of its powers, authorities, rights or discretions under any of the Transaction Documents and/or these Conditions unless and until it has been directed in writing to do so by the Controlling Creditor (and, subject to the limitations in Condition 15(a) and the terms and conditions of the Trust Deed shall act as so directed) and shall only be obliged to do so upon being directed and having been indemnified and/or secured to its satisfaction, and shall not be liable for any losses incurred by reason thereof.

In the event that in contemplating the exercise of any of its trusts, powers, authorities, rights or discretions under these Conditions or any Transaction Document, the Note Trustee, when acting as the Controlling Creditor is of the opinion that there is a conflict between the interests

of the Noteholders or either Class of them on the one hand and the interests of any other Secured Creditors on the other hand, the Note Trustee, insofar as it exercises any of such trusts, powers, authorities, rights or discretions, shall have regard solely to the interests of the Noteholders and the other Secured Creditors shall have no claim against the Note Trustee for so acting.

The Note Trustee shall not act at the direction of the Controlling Creditor in relation to any matter which affects the Basic Terms Modifications or Reserved Matters or any of them unless it has also been directed by the Noteholders by Extraordinary Resolution or required in writing to do so by the Noteholders holding at least 25 per cent. of principal amount of the Notes then outstanding and vice versa and in any case the Note Trustee has been indemnified and/or secured to its satisfaction.

The Note Trustee's Reserved Matters may be exercised by the Note Trustee without the consent or direction or control of the Controlling Creditor or the Noteholders and the Note Trustee shall not be obliged to exercise them in any circumstances.

#### *Removal and Replacement of Note Trustee and Security Trustee*

- (e) There shall at all times be a Note Trustee and a Security Trustee. The Trust Deed and the Issuer Deed of Charge provide that the retirement or removal of any Note Trustee or Security Trustee shall not become effective unless a trust corporation would remain as trustee or a replacement trust corporation is appointed.
- (f) BNY Corporate Trustee Services Limited (the "Initial Trustee") is acting as Note Trustee under the Trust Deed and as Security Trustee under the Issuer Deed of Charge (and while doing so the Initial Trustee and any successor which acts in all such capacities are referred to in this Condition as the "Trustee"). No entity may act as a trustee in either such capacity unless it is also the Trustee or unless the Trustee agrees otherwise or unless the Trustee resigns its office as trustee in all such capacities. In its capacity as trustee, the Trustee will not be liable to any Noteholder for any loss which he may suffer by reason of any conflict which may arise between the interests of the Noteholders and any other person to whom the Trustee owes duties as a result of the Trustee acting in all such capacities.

#### **16. AGENTS**

##### *Paying Agents and Agent Bank Solely Agents of Issuer*

- (a) In acting under the Agency Agreement and in connection with the Notes, the Paying Agents and the Agent Bank will act solely as the agents of the Issuer or (to the extent provided in the Agency Agreement) the Note Trustee and shall not be under any fiduciary duty or other obligation towards, or have any relationship of agency or trust for or with, any of the Noteholders.

##### *Determinations Binding*

- (b) Any determination or calculation made by the Agent Bank shall be binding on the Noteholders absent manifest error, breach of contract, wilful default, negligence or fraud.

#### **17. REPLACEMENT OF NOTES**

If any Note 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 costs and expenses incurred in connection with such replacement and with such evidence, security and indemnity as the Issuer, the

Principal Paying Agent and/or the relevant Paying Agent may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## **18. NOTICES AND INFORMATION**

### *Valid Notices*

- (a) Any notice to Noteholders shall be validly given if it is published in a leading English language daily newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if this is not practicable, in another leading English language newspaper as the Note Trustee shall approve having general circulation in Europe. Any such notice shall be deemed to have been given to Noteholders 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 one of the newspapers 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 18(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 date on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be).

### *Notices While Listed*

- (c) So long as the Notes are listed on the Stock Exchange and the rules of that exchange so require, notices will also be published via the Company Announcements Office of the Stock Exchange.

### *Other Methods for Notice*

- (d) The Note Trustee may approve any other method of giving notice to Noteholders which is, in its opinion, reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed.

### *Copy of Notices*

- (e) A copy of each notice given in accordance with this Condition 18 (*Notices and Information*) shall be provided to Ambac and the Rating Agencies and, for so long as the Notes are listed on the Stock Exchange and its rules so require, the Stock Exchange.

### *Noteholder Information*

- (f) The Issuer shall provide Ambac, the Note Trustee and each of the Paying Agents with 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, 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 each of the Paying Agents.

**19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

**20. GOVERNING LAW**

*English Law*

- (a) The Trust Deed, the Notes and the Issuer Deed of Charge and the relationship between (a) the parties to those Transaction Documents, (b) the Noteholders and the Note Trustee and (c) the Noteholders and the Security Trustee shall be governed by, and interpreted in accordance with, English law.

*Exclusion of Luxembourg Law*

- (b) The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915 on commercial companies, as amended, are hereby excluded.

**21. SPECIFIED OFFICES**

*Principal Paying Agent*

The Bank of New York  
48th Floor  
One Canada Square  
London E14 5AL  
United Kingdom

*Irish Paying Agent*

BNY Financial Services Plc  
70 Sir John Rogerson's Quay  
Dublin 2  
Ireland

*Registrar*

The Bank of New York (Luxembourg) S.A.  
Aerogolf Center  
1A, Hoehenhof  
L-1736 Senningerberg  
Luxembourg

**TERMS AND CONDITIONS OF THE INSURANCE-LINKED LOAN AND  
SAVINGS-LINKED LIMITED PARTNERSHIP INTEREST**

**A. TERMS OF THE INSURANCE-LINKED LOAN**

**1. DEFINITIONS AND INTERPRETATION**

In this description of the terms of the Insurance-linked Loan (the “**Insurance-linked Loan**” or “**IL Loan**”), except to the extent that the context otherwise requires:

“**Act**” means the Limited Partnerships Act 1907;

“**Acceleration Event**” means any Dissolution Event, a BoI Life Licence Acceleration Event, a Dividend Stopper Non-Compliance Event, a BoI Life Disposal Event or any BoI Life Asset Disposal Event;

“**Additional Amounts**” means the additional amounts which may be payable in respect of the Insurance-linked Loan as described in paragraph 5;

“**Amortisation Event**” occurs on the earliest of:

- (a) the failure of the Projected VIF and the Stressed VIF to meet certain tests or the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount to meet certain tests (see “*Description of Dynamic Defined Block – Inclusion of Additional Policies in the Dynamic Defined Block*”) above;
- (b) the incurrence by BoI Life (i) of any Mis-selling Liability that alone or taken together with other Mis-selling Liabilities of BoI Life has a Material Adverse Effect and (ii) Ambac (for so long as it is the Controlling Creditor) having given the General Partner notice that the Pre-Amortisation Period is to end as a result thereof (if Ambac is not the Controlling Creditor, the requirements of (ii) shall not apply);
- (c) the participation of BoI Life (i) in any Churning Activity for an Improper Purpose that alone or taken together with the participation of BoI Life in any other Churning Activity for an Improper Purpose has a Material Adverse Effect and (ii) Ambac (for so long as it is the Controlling Creditor) having given the General Partner notice that the Pre-Amortisation Period is to end as a result thereof (if Ambac is not the Controlling Creditor, the requirements of (ii) shall not apply);
- (d) where Bank of Ireland does not have the Required Ratings, a failure by the General Partner, having been so directed by Ambac (if it is the Controlling Creditor) or (subject to it having actual knowledge of Bank of Ireland ceasing to have the Required Ratings) the Security Trustee (if Ambac is not the Controlling Creditor) acting on the instructions of the Note Trustee with the sanction of holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or an Extraordinary Resolution of the holders of the Most Senior Class to realise or otherwise dispose of the Limited Partnership’s investments and deposit the proceeds, within 30 days of Ambac or the Security Trustee, as applicable, giving the direction, with a financial institution having (or whose obligations are guaranteed by a person that has) the Required Ratings which financial institution is nominated by Ambac (if it is the Controlling Creditor) or the Security Trustee (if Ambac is not the Controlling Creditor) and which has agreed with Ambac or the Security Trustee, as applicable, to accept such funds on deposit from the Limited Partnership, provided that, in the case of the Security Trustee, the Security Trustee will, in respect of the Deposits, only direct the General Partner to transfer the

Deposits (if any) in accordance with the Deposits Policy and, in respect of other investments of the Limited Partnership, will only direct the General Partner to realise and deposit the proceeds of such investments on the instruction of the Note Trustee with the sanction of holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or an Extraordinary Resolution of the holders of the Most Senior Class; and

- (e) the failure of the Limited Partnership Agreement, the IL Loan, the SLLPI, the Support Agreement, the General Partner Keepwell Agreement, the GP Forward Subscription Agreement, the VIF Calculation Agreement, the Floating Rate Deposit Agreement or the Fixed Rate Deposit Agreement (in the latter two cases, for so long as such deposits are outstanding and, for the avoidance of doubt, withdrawing some or all of the funds on deposit shall not result in an Amortisation Event occurring) to be legal valid and binding if such failure (A) is not cured or remedied within 60 days and (B) has either a Material Adverse Effect or is otherwise materially prejudicial to the material obligations of Bank of Ireland, BoI Life, the General Partner or the Limited Partnership, as applicable, or to the material rights of the Issuer under such agreement (in each case, taken as a whole and determined on the basis that such failure had not occurred);

**“Business Day”** means a day (other than a Saturday or Sunday):

- (a) on which commercial banks are open for general business in London, Dublin, the Cayman Islands and Luxembourg; and
- (b) that is a TARGET Settlement Day;

**“Calculation Agent”** means the General Partner or such reputable person competent to perform such calculations as the General Partner may appoint to make such calculations on its behalf;

**“Closing Date”** means 25 October 2007;

**“Companies Acts”** means the Companies Act 1963 to 2006 of Ireland, as amended and/or restated from time to time and all statutory instruments to be construed as one therewith;

**“Day Count Fraction”** means, in respect of any Distribution Period, the actual number of days in such period divided by 360;

**“Deposits Policy”**, means the policy pursuant to which the Security Trustee will, itself or acting through an agent appointed by it, direct the payment into an interest bearing deposit account with Lloyds TSB Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Citibank N.A. or Bank of America N.A., depositing such amounts with the first named provided (i) it has the Required Ratings or its obligations are unconditionally and irrevocably guaranteed by a person with the Required Ratings and (ii) does not decline to accept such deposit on terms substantially equivalent (except as to rate of return) to the Fixed Rate Deposit and the Floating Rate Deposit; if the first named fails to meet the criteria in (i) and (ii), the deposits will be made with the second on the list, and so on. If a bank (or its guarantor, as applicable) on the list ceases to have the Required Ratings, the bank may be replaced by the Security Trustee (acting on the instructions of the Controlling Creditor);

**“Distribution Determination Date”** means, in respect of a Distribution Payment Date, the first Business Day falling ten Business Days prior to such Distribution Payment Date;

**“Distribution Payment Date”** means 30 January, 30 April, 30 July and 30 October in each year, commencing 30 January 2008, save that if any such day would otherwise fall on a day which is not a Business Day, such Distribution Payment Date shall be postponed to the next succeeding Business Day unless such day falls in the next month in which case it shall be the preceding Business Day;

**“Distribution Period”** means the period from, and including, the Closing Date to, but excluding, the first Distribution Payment Date and each period thereafter from, and including, one Distribution Payment Date to, but excluding, the next following Distribution Payment Date;

**“Distribution Rate Reset Date”** means, in respect of a Distribution Payment Date, the day which is 2 Business Days prior to the immediately preceding Distribution Payment Date (or, in the case of the first Distribution Payment Date, the Closing Date);

**“Dividend Stopper”** has the meaning given to it in the Support Agreement;

**“Dividend Stopper Period”** has the meaning given to it in the Support Agreement;

**“Dividend Stopper Remedy Date”** has the meaning given to it in the Support Agreement;

**“EURIBOR”** will be determined by the Calculation Agent on the following basis:

- (a) at or about 11.00 a.m. (Brussels time) on each Distribution Rate Reset Date, the Calculation Agent will determine the offered quotation to leading banks in the Euro-zone interbank market for three month euro deposits (or, in the case of the first Distribution Period, the linear interpolation of three and four months) (rounded to five decimal places with the mid-point rounded up) by reference to the display designated as EURIBOR01 as quoted on the Reuters Screen (the **“Screen Rate”**). If the agreed page is replaced or ceases to be available, the Calculation Agent may specify another page or service displaying the appropriate rate after consultation with the General Partner; or
- (b) if the Screen Rate is not then available for euro or for the Distribution Period of the relevant Limited Partnership Interests, the arithmetic mean of the rates (rounded to five decimal places with the midpoint rounded up) as supplied to the Calculation Agent at its request by the principal office of each of four major banks in the Euro-zone interbank market as selected by the Calculation Agent in its discretion (the **“Reference Banks”**) at or about 11.00 a.m. (Brussels time) on the Distribution Rate Reset Date for the offering of deposits to the leading banks in the Euro-zone interbank market in euro and for a period comparable to the Distribution Period. If on any Distribution Rate Reset Date, only three of four of the Reference Banks provide such offered quotations to the Calculation Agent, 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 Distribution Rate Reset Date, less than three quotations are provided as requested, the rate for that Distribution Rate Reset Date will be the arithmetic mean (rounded to five decimal places with the mid-point rounded up) of the rates quoted by leading banks in London selected by the Calculation Agent,

provided always that for so long as the Lender of the Insurance-linked Loan is Avondale Securities S.A., the Calculation Agent shall determine EURIBOR for a Distribution Period as the rate determined as **“EURIBOR”** by the Agent Bank for the Notes for the Interest Period (as defined in the terms and conditions of the Notes) commencing on the same date as such Distribution Period commences;

**“Financial Regulator for Ireland”** means the Irish Financial Services Regulatory Authority a constituent part of the Central Bank and Financial Services Authority of Ireland or such other national or supranational regulatory authority as may at the relevant time have primary responsibility for the regulation and supervision of banks in Ireland (or, if the Support Provider becomes domiciled in a jurisdiction other than Ireland, in such other jurisdiction);

**“General Partner”** means, prior to 28 September 2007, Openmulti Limited and thereafter Vida Pura Limited or any entity which becomes the general partner thereafter following any replacement of Vida Pura Limited pursuant to the Limited Partnership Agreement;



**“Group”** means the Support Provider and its Subsidiaries;

**“IL Loan”** means, in relation to the Insurance-linked Loan, the initial advance made by the Lender on the Closing Date, being €400,000,000;

**“Improper Purpose”** means a desire to:

- (a) reduce surplus emerging from the Dynamic Defined Block;
- (b) cause profit to be generated outside the Dynamic Defined Block (whether in BoI Life or another company) at the expense of the Dynamic Defined Block; or
- (c) prevent the identification of an Invalidity or to prevent the calculation of the effect or the full effect of an Invalidity.

**“Initial Limited Partner”** means College Green Limited;

**“Investment Powers of Attorney”** means the irrevocable powers of attorney granted by the General Partner (on behalf of the Limited Partnership and on its own behalf) to Ambac and the Security Trustee pursuant to the Support Agreement;

**“Limited Partnership”** means BOI VIF Funding (No. 1) LP;

**“Limited Partnership Agreement”** means an agreement dated 14 September 2007 between the General Partner and the Initial Limited Partner establishing the Limited Partnership, as the same has been or may be amended from time to time;

**“Limited Partnership’s Tax Jurisdiction”** means the jurisdiction in which the Limited Partnership is resident, domiciled or has its effective management for tax purposes;

**“Liquidation Repayment”** means, in respect of the Insurance-linked Loan:

- (a) in the case of a Non-Sale Acceleration Event, the sum of the amount determined to be payable pursuant to paragraphs 22.2(a) and 22.3(a) as amended by paragraph 27.2(a) and 27.4 of Schedule 4 to the Limited Partnership Agreement (*see Part C below*);
- (b) in the case of a Sale Acceleration Event, the amount determined to be payable pursuant to paragraphs 22.2(a) and 22.3(a) as amended by paragraph 30 of Schedule 4 to the Limited Partnership Agreement (*see Part C below*);

**“Lender”** means the lender of the Insurance-linked Loan;

**“Maturity Date”** means the Distribution Payment Date falling in July 2032;

**“Nominated Deposit Bank”** means Lloyds TSB Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Citibank N.A. or Bank of America N.A. or any other bank that may be nominated as such in accordance with the Deposits Policy;

**“Principal Repayment Amount”** has the meaning set out in paragraph 3.3;

**“Permitted Investment”** means:

- (a) prior to a Downgrade Direction Event, any euro-denominated investment that is one or more of the following: (i) a deposit (including the Deposits) with a branch of Bank of Ireland in Ireland or the United Kingdom or a branch of Bank of Ireland (IOM) Limited in the Isle of Man provided that Bank of Ireland has guaranteed its obligations and provided that it gives

notice confirming that it will recognise and comply with powers exercised pursuant to the Investment Powers of Attorney, in each case ranking *pari passu* with ordinary depositors of such institution, (ii) commercial paper or other money market debt instruments with a maturity of not more than 270 days from the date of issuance and having a rating at the time of such investment of “A-1+” by S&P and “P-1” by Moody’s, (iii) marketable debt securities listed on a regulated OECD exchange issued by any government of any member state of the European Union or any agency having a guarantee by or the full faith and credit of any government of any member state of the European Union that has a long term senior debt rating of “AAA” by S&P and “Aaa” by Moody’s which have a legal maturity earlier than the Maturity Date, provided that, in the case of (ii) and (iii) above, such investments shall be held with Bank of Ireland Securities Services Limited as custodian, acting through a branch in Ireland, the Isle of Man or the United Kingdom, and that such custodian gives notice confirming that it will recognise and comply with powers exercised pursuant to the Investment Powers of Attorney, and (iv) one non-voting class “A” share of €1.00 nominal amount in BoI Insurance Limited; and

- (b) following a Downgrade Direction Event, includes any euro-denominated investment described in (a) and any of the following, provided the same has been approved by Ambac (where it is the Controlling Creditor) or (other than deposits with the Nominated Deposit Banks) by the Note Trustee (where Ambac is not the Controlling Creditor) and are entered into on arm’s length terms: (i) reinvestment agreements (so long as payments under any such reinvestment agreement are not subject to withholding taxes) issued by any bank or other institution (if treated as a deposit by such bank or other institution), or a registered reinvestment agreement issued by any insurance company or other corporation or entity organized under the laws of the United States of America or any state thereof, in each case, that has a credit rating of not less than “Aaa” by Moody’s and not less than “AAA” by Standard & Poor’s; provided that if the issuer thereof has a short term rating from Standard & Poor’s or Moody’s, the issuer thereof must also have at the time of such investment a short-term credit rating of not less than “P-1” by Moody’s and not less than “A-1” by Standard & Poor’s; (ii) any other investment similar to those described in (i) above that each of the Rating Agencies has confirmed in writing may be included as a Permitted Investment without resulting in a qualification, downgrade or withdrawal of any of its then current ratings on the Notes and (iii) any deposit with a Nominated Deposit Bank or any other bank having the Required Ratings which is selected by Ambac (if it is the Controlling Creditor); provided that Permitted Investments shall not include: (x) any interest-only security or principal-only security, (y) any security purchased at a price in excess of 100% of the par value thereof or (z) any security the rating of which by Standard & Poor’s includes the subscript “p”, “pi”, “q”, “r” or “t”;

“**Prospectus**” means the prospectus dated 24 October 2007 issued by Avondale Securities S.A.;

“**Required Ratings**”, in respect of a person, means the long term, senior, unsecured and unguaranteed debt obligations of such person are, or are unconditionally and irrevocably guaranteed by a person whose long term, senior, unsecured and unguaranteed debt obligations are, rated at least “A2” by Moody’s (or any successor to its ratings business) and “A-” by S&P (or any successor to its ratings business), provided that if a person ceases to have such a rating due to such rating agency ceasing to rate securities generally (and not merely the securities of such person) the rating prior to such cessation shall be deemed to continue until a successor rating agency and rating sub-category has been agreed between the General Partner and the Lender;

“**Replacement Partnership Asset**” means a Permitted Investment held or to be held as an asset of the Limited Partnership;

“**Savings Surplus Election**” means the election made by the General Partner in respect of distributions on the SLLPI pursuant to paragraph 26 of Schedule 4 to the Limited Partnership Agreement (*see Part C below*);

“**Subsidiary**” means any entity which is for the time being a subsidiary or subsidiary undertaking of the Support Provider (within the meaning of the Companies Acts including the European Communities (Companies Group Accounts) Regulations, 1992 of Ireland);

“**Support Agreement**” means the Support Agreement in respect of the Limited Partnership Interests entered into, *inter alia*, by the Support Provider and the General Partner (on behalf of the Limited Partnership) on 25 October 2007;

“**Support Provider**” means The Governor and Company of Bank of Ireland and its successors and assignees;

“**tax**” means any present or future taxes or duties of whatsoever nature imposed or levied by or on behalf of a relevant jurisdiction or any political subdivision of or by any authority therein or thereof having power to tax;

“**Tax Credit**” means a repayment of, or a credit against, or relief or remission for, or any tax;

“**Tax Deduction**” means a deduction or withholding for or on account of tax;

“**Tax Payment**” means the increase in a payment made by the Limited Partnership to the Lender under paragraph 6.2;

“**Treaty**” means a convention for the avoidance of double taxation between the jurisdiction in which the Lender is resident and that Limited Partnership’s Tax Jurisdiction or the jurisdiction of source of the interest (if different).

In this description of the Insurance-linked Loan any reference to a particular time shall, unless otherwise specified, be to that time in London.

## **2. INTEREST PAYMENTS**

2.1 Interest (the “**Interest Payment**”) on the Insurance-linked Loan will accrue from the Closing Date and shall be payable in arrears on each Distribution Payment Date in the amount determined to be payable pursuant to Schedule 4 to the Limited Partnership Agreement (*see Part C below*).

2.2 The amount of each Interest Payment (each an “**Interest Payment Amount**”) shall be determined on each Distribution Determination Date in accordance with the provisions set out in Schedule 4 to the Limited Partnership Agreement (*see Part C below*).

2.3 In the event that any Interest Payment is not to be paid in full, the General Partner will notify or procure notification to the Lender, in accordance with paragraph 10, of the amount, if any, to be paid in respect of that Interest Payment.

## **3. PRINCIPAL REPAYMENTS**

3.1 Unless otherwise expressly stated, the amount outstanding under the Insurance-linked Loan on any day shall be the IL Loan Account Balance on such day.

3.2 That part of the principal amount outstanding of the IL Loan which is repayable on each Distribution Payment Date shall be the amount determined to be repayable pursuant to Schedule 4 to the Limited Partnership Agreement in respect of such Distribution Payment Date (*see Part C below*).

3.3 The amount of each Principal Repayment (each a “**Principal Repayment Amount**”) shall be determined on each Annual Determination Date in accordance with the provisions set out in Schedule 4 to the Limited Partnership Agreement (*see Part C below*).

3.4 In the event that any Principal Repayment Amount is not paid in full, the General Partner (or the GP Administrator on its behalf) will notify or procure notification to the Lender, in accordance with paragraph 10, of the amount unpaid.

3.5 The intent of the IL Loan, SLLPI and related Accounts structure is to document the payments made by and due from the Limited Partnership upon which the Issuer relies to pay interest on and repay the principal of the Notes and to pay its expenses (including amounts due to Ambac). To the extent that Insurance VIF and Savings VIF emerge in sufficient amounts to pay such amounts (and, (i) in the case of Savings VIF, assuming a Savings Surplus Election is made and (ii) assuming no Replacement Deposit Bank Deficiency or other Post-DDE Loss Amount), the payments made by and due from the Partnership in respect of the IL Loan and SLLPI are expected to be sufficient (a) on each Interest Payment Date to pay interest on the Notes and to pay the Issuer's expenses (including amounts due to Ambac) and (b) ultimately, to repay the principal of the Notes.

3.6 In the event that Ambac or Bank of Ireland gives notice that it considers that the provisions of Schedule 4 to the Limited Partnership Agreement (*see Part C below*) are giving rise to materially incorrect results (having regard to the descriptions in the Prospectus and the intention stated in paragraph 3.5), the provisions shall be amended to achieve the intent with the agreement of each of them or, in the absence of agreement, by reference to an independent actuary agreed between them or appointed by the President of the Society of Actuaries in Ireland (or any successor body), and the other parties to the Limited Partnership Agreement shall agree to any such amendment.

#### **4. DISSOLUTION EVENT REPAYMENTS**

4.1 Subject to paragraphs 5 and 6, in the event a Dissolution Event occurs in respect of the Limited Partnership, the Lender of the Insurance-linked Loan will be entitled to receive the Liquidation Repayments, in respect of the Insurance-linked Loan, out of the assets of the Limited Partnership available for payment to such Lender in accordance with the terms of the Limited Partnership Agreement. Any rights of the General Partner and the holders of any other partnership interests issued by the Limited Partnership to receive any payments from the Limited Partnership shall be subordinated to the rights of the Lender, as a creditor of the Limited Partnership, to receive the Liquidation Repayments.

4.2 If a dissolution occurs other than a Dissolution Event, the amounts payable following dissolution shall be payable at the times and in the amount that would have been the case had such dissolution not occurred.

4.3 After payment of the Liquidation Repayments in respect of the Insurance-linked Loan no further amount shall be due in respect of the IL Loan and, to the extent that the aggregate amount of principal repaid is less than the initial IL Loan made, the balance shall be written off and shall not be due or payable and the Lender will have no right or claim to any of the remaining assets of the Limited Partnership or the Support Provider.

#### **5. REPAYMENT ON MATURITY DATE AND FOLLOWING AN ACCELERATION EVENT**

5.1 The Insurance-linked Loan outstanding shall be redeemed on the Maturity Date for no payment (other than any Interest Payment Amounts and Principal Repayment Amount then due but unpaid in respect of that or prior Distribution Payment Dates, as determined pursuant to Schedule 4 to the Limited Partnership Agreement). The Lender has no rights to call for the early repayment of the Insurance-linked Loan.

5.2 If a Dissolution Event or other Non-Sale Acceleration Event occurs, the IL Loan shall be repayable at the Liquidation Repayment amount (which includes accrued interest, which will not be separately payable) on the date determined in accordance with Schedule 4 to the Limited Partnership

Agreement (*see Part C below*), in the case of a Non-Sale Acceleration Event (other than a Dissolution Event), paragraph 27 and in the case of a Dissolution Event, paragraph 28, and in the case of a Dissolution Event or other Non-Sale Acceleration Event, no further amount shall be due in respect of the IL Loan and to the extent that the aggregate amount of principal repaid is less than the initial IL Loan made, the balance shall be written off and shall not be payable and the Lender will have no right or claim to any of the remaining assets of the Limited Partnership or the Support Provider.

5.3 If a Sale Acceleration Event occurs, then the provisions of paragraph 30 of Schedule 4 to the Limited Partnership Agreement (*see Part C below*) shall apply.

## 6. ADDITIONAL AMOUNTS

6.1 The Limited Partnership shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

6.2 If a Tax Deduction is required by law to be made by the Limited Partnership, the amount of the payment due from the Limited Partnership shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required (such amount being the “**Additional Amount**”).

6.3 If the Limited Partnership is required to make a Tax Deduction, the Limited Partnership shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.

6.4 If the Limited Partnership makes a Tax Payment and a Tax Credit is attributable either to an increased payment of which that Tax Payment forms part or to that Tax Payment, the Lender shall pay an amount to the Limited Partnership equal to that Tax Credit once it has been obtained and the Lender has received the benefit of such Tax Credit by way of cash or in some other form.

6.5 The following procedure shall apply if a Tax Deduction in accordance with the terms of this paragraph 6 has been made:

- (a) Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Limited Partnership shall deliver to the Lender evidence reasonably satisfactory to it that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.
- (b) The Limited Partnership and the Lender shall co-operate in completing any procedural formalities necessary for the Limited Partnership to obtain authorisation to make payments without a Tax Deduction and, to the extent a Tax Deduction is made, for the Lender to obtain a Tax Credit in respect of such Tax Deduction, including making and filing an appropriate application for relief under:
  - (i) the domestic law of that Limited Partnership’s Tax Jurisdiction or the jurisdiction of source of the interest (if different);
  - (ii) a Treaty between the jurisdiction in which the Lender is resident and that Limited Partnership’s Tax Jurisdiction or the jurisdiction of source of the interest (if different);  
or
  - (iii) EU law.

6.6 No such Additional Amounts will be payable to the Lender (or to a third party on his behalf) with respect to any Insurance-linked Loan to the extent that such Tax is imposed or levied by virtue of the Lender (or the beneficial owner) of such Insurance-linked Loan having some connection with the

relevant jurisdiction, other than merely being the Lender (or beneficial owner) of such Insurance-linked Loan.

## 7. PAYMENTS

7.1 All payments of interest and principal will be payable on each relevant Distribution Payment Date to the person who is the Lender on the fifth Business Day prior to the relevant Distribution Payment Date.

7.2 The General Partner will cause the Calculation Agent, as soon as practicable after 11:00 a.m., London time on each Distribution Determination Date, to determine the Interest Payment Amount and Principal Repayment Amount payable on the Insurance-linked Loan.

7.3 If the General Partner gives a notice of early repayment in respect of the Insurance-linked Loan pursuant to paragraph 5, then on the date of early repayment the General Partner shall procure that the Liquidation Repayment will be paid to the Lender. In the event that payment of the Liquidation Repayment in respect of the IL Loan is improperly withheld or refused and not paid by the Limited Partnership, interest will accrue on the amount not paid, from the early repayment date to the date of actual payment in full of such Liquidation Repayment at EURIBOR plus the Projected Spread Rate, compounded quarterly on each date which would be a Distribution Payment Date.

7.4 The Loan is a debt obligation of, and not a partnership interest in, the Limited Partnership and accordingly the Lender will have no right to participate in the profits of the Limited Partnership and in particular will have no rights to receive from the Limited Partnership amounts paid to the Limited Partnership in excess of Interest Payment Amounts, Principal Repayment Amounts or Liquidation Repayments due and payable under the Insurance-linked Loan. In the event that any amounts received by the Lender in respect of the IL Loan exceed the amount (if any) then due by way of Interest Payment Amount, Principal Repayment Amounts or Liquidation Repayments under the Insurance-linked Loan, the amount of such excess will be repaid to the Limited Partnership and enure for the benefit of the General Partner and Limited Partners, and the Lender of the Insurance-linked Loan will have no rights in respect thereof. The Lender shall have no liability in its capacity as Lender to contribute to the debts or obligations of the Limited Partnership (if any).

7.5 All percentages resulting from any of the above calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards (e.g. 3.576545% (or .03576545) being rounded to 3.57655% (or .0357655)) and all euro amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent being rounded upwards).

7.6 The General Partner will cause the Interest Payment Amount and Principal Repayment Amount for each Distribution Period to be notified to the Limited Partner, the Issuer Cash Manager, the Security Trustee, Ambac and the Support Provider by no later than the first Business Day following the Distribution Determination Date.

7.7 All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph 7 and Schedule 4 to the Limited Partnership Agreement (*see Part C below*) by the Calculation Agent will (in the absence of wilful default or manifest error) be binding on the Limited Partnership, the Support Provider and the Lender and (in the absence of wilful default or manifest error) no liability to the Limited Partnership, the Support Provider or the Lender shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this paragraph 7.

7.8 Subject to all applicable fiscal or other laws and regulations each payment will be made by direct transfer if appropriate direct transfer instructions have been received by the Limited Partnership

in sufficient time prior to the relevant date of payment, provided, however, that a Lender may receive such payment by cheque and mailed to the Lender at such Lender's address as notified by the Lender in writing to the Limited Partnership from time to time if such transfer instructions have not been received prior to the second Business Day preceding the relevant payment date. Lender will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if a cheque mailed in accordance with this paragraph arrives after the due date for payment.

## **8. LENDER CONSENT**

8.1 The Lender will not be entitled to receive notice of, or attend or vote at, any meeting of partners in the Limited Partnership or take part in the management of the Limited Partnership.

8.2 The consent in writing of the Lender shall be required in order to give effect to any variation or abrogation of the rights, preferences and privileges of the Insurance-linked Loan by way of amendment of the Limited Partnership Agreement or the Support Agreement or otherwise (unless otherwise provided in the terms of the Insurance-linked Loan or as required by applicable law).

8.3 Notwithstanding the foregoing, no consent of the Lender will be required for the early repayment of the Insurance-linked Loan in accordance with the Limited Partnership Agreement.

## **9. COVENANTS OF THE GENERAL PARTNER**

The General Partner will undertake:

- (a) not to incur any indebtedness in the name of the Limited Partnership other than the costs and expenses incidental to creating the Limited Partnership;
- (b) to create, issue and perform its and the Limited Partnership's obligations with respect to the Insurance-linked Loan and any partnership interest in the Limited Partnership;
- (c) to exercise the Limited Partnership's rights in respect of the Limited Partnership's assets and any other investments acquired by it;
- (d) to administer the Limited Partnership with the due care and skill of a professional manager;
- (e) not to permit or take any action that would or might cause the occurrence of an Insolvency Event or Dissolution Event in respect of the Limited Partnership;
- (f) not to take any capital or profits from the Limited Partnership until seven Business Days following the earlier of (i) the Maturity Date and (ii) the date on which the IL Loan Account Balance is reduced to zero and no amounts stand to the credit of the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account;
- (g) to comply in a timely manner with any Downgrade Direction Notice;
- (h) not to amend or terminate or waive any right under or assign to any other person any of its rights under the Support Agreement or the Limited Partnership Agreement, save as required under a Transaction Document to which it is a party;
- (i) to enforce its rights under the Transaction Documents to which it is a party; and
- (j) not to resign as general partner of the Limited Partnership, save as permitted under a Transaction Document to which it is a party.

## **10. NOTICES**

All notices to the Lender will be mailed to the Lender with a copy to Ambac. Any mailed notice shall be deemed to have been given one clear day after the date on which it was posted. Notices may be given in such other way as the General Partner and Lender may from time to time agree.

## **11. TRANSFERS**

The Lender may not sell, transfer, assign, create any mortgage, charge, lien or other security interest in or over or create any interest or trust in, over or out of its rights under this IL Loan without the prior written consent of the General Partner, save that it may charge its rights pursuant to the Issuer Deed of Charge and, following enforcement of the security created thereby, its rights under this IL Loan or this IL Loan may be transferred to a receiver appointed pursuant to the Issuer Deed of Charge.

## **12. GOVERNING LAW AND JURISDICTION**

12.1 The Limited Partnership Agreement and the Insurance-linked Loan shall be governed by, and construed in accordance with, English law.

12.2 The submission by the Limited Partnership and the Lender to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Lender to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.



## **B. TERMS OF THE SAVINGS-LINKED LIMITED PARTNERSHIP INTEREST**

### **1. DEFINITIONS AND INTERPRETATION**

In this description of the terms of the Savings-linked Limited Partnership Interests (the "Savings-linked Limited Partnership Interest Terms"), except to the extent that the context otherwise requires:

**"Acceleration Event"** means any Dissolution Event, a BoI Life Licence Acceleration Event, a Dividend Stopper Non-Compliance Event, a BoI Life Disposal Event or any BoI Life Asset Disposal Event;

**"Act"** means the Limited Partnerships Act 1907;

**"Additional Amounts"** means the additional amounts which may be payable in respect of the SLLPI as described in paragraph 5;

**"Amortisation Event"** occurs on the earliest of:

- (a) the failure of the Projected VIF and the Stressed VIF to meet certain tests or the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount to meet certain tests (see "*Description of Dynamic Defined Block – Inclusion of Additional Policies in the Dynamic Defined Block*") above;
- (b) the incurrence by BoI Life (i) of any Mis-selling Liability that alone or taken together with other Mis-selling Liabilities of BoI Life has a Material Adverse Effect and (ii) Ambac (for so long as it is the Controlling Creditor) having given the General Partner notice that the Pre-Amortisation Period is to end as a result thereof (if Ambac is not the Controlling Creditor, the requirements of (ii) shall not apply);
- (c) the participation of BoI Life (i) in any Churning Activity for an Improper Purpose that alone or taken together with the participation of BoI Life in any other Churning Activity for an Improper Purpose has a Material Adverse Effect and (ii) Ambac (for so long as it is the Controlling Creditor) having given the General Partner notice that the Pre-Amortisation Period is to end as a result thereof (if Ambac is not the Controlling Creditor, the requirements of (ii) shall not apply);
- (d) where Bank of Ireland does not have the Required Ratings, a failure by the General Partner, having been so directed by Ambac (if it is the Controlling Creditor) or (subject to it having actual knowledge of Bank of Ireland ceasing to have the Required Ratings) the Security Trustee (if Ambac is not the Controlling Creditor) acting on the instructions of the Note Trustee with the sanction of holders of not less than 25 per cent. in aggregate of the Most Senior Class or an Extraordinary Resolution of holders of the Most Senior Class to realise or otherwise dispose of the Limited Partnership's investments and deposit the proceeds, within 30 days of Ambac or the Security Trustee, as applicable, giving the direction, with a financial institution having (or whose obligations are guaranteed by a person that has) the Required Ratings which financial institution is nominated by Ambac (if it is the Controlling Creditor) or the Security Trustee (if Ambac is not the Controlling Creditor) and which has agreed with Ambac or the Security Trustee, as applicable, to accept such funds on deposit from the Limited Partnership, provided that, in the case of the Security Trustee, the Security Trustee will, in respect of the Deposits, only direct the General Partner to transfer the Deposits (if any) in accordance with the Deposits Policy and, in respect of other investments of the Limited Partnership, will only direct the General Partner to realise and deposit the proceeds of such investments on the instruction of the Note Trustee with the sanction of holders of not less than 25 per cent. in aggregate of the Most Senior Class or an Extraordinary Resolution of the holders of the Most Senior Class; and

- (e) the failure of the Limited Partnership Agreement, the IL Loan, the SLLPI, the Support Agreement, the General Partner Keepwell Agreement, the GP Forward Subscription Agreement, the VIF Calculation Agreement, the Floating Rate Deposit Agreement or the Fixed Rate Deposit Agreement (in the latter two cases, for so long as such deposits are outstanding and, for the avoidance of doubt, withdrawing some or all of the funds on deposit shall not result in an Amortisation Event occurring) to be legal valid and binding if such failure (A) is not cured or remedied within 60 days and (B) has either a Material Adverse Effect or is otherwise materially prejudicial to the material obligations of Bank of Ireland, BoI Life, the General Partner or the Limited Partnership, as applicable, or to the material rights of the Issuer under such agreement (in each case, taken as a whole and determined on the basis that such failure had not occurred);

**“Business Day”** means a day (other than a Saturday or Sunday):

- (a) on which commercial banks are open for general business in London, Dublin, the Cayman Islands and Luxembourg; and
- (b) that is a TARGET Settlement Day;

**“Calculation Agent”** means the General Partner or such reputable person competent to perform such calculations as the General Partner may appoint to make such calculations on its behalf;

**“Closing Date”** means 25 October 2007;

**“Companies Acts”** means the Companies Act 1963 to 2006 of Ireland, as amended and/or restated from time to time and all statutory instruments to be construed as one therewith;

**“Day Count Fraction”** means, in respect of any Distribution Period, the actual number of days in such period divided by 360;

**“Deposits Policy”**, means the policy pursuant to which the Security Trustee will, itself or acting through an agent appointed by it, direct the payment into an interest bearing deposit account with Lloyds TSB Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Citibank N.A. or Bank of America N.A., depositing such amounts with the first named provided (i) it has the Required Ratings or its obligations are unconditionally and irrevocably guaranteed by a person with the Required Ratings and (ii) does not decline to accept such deposit on terms substantially equivalent (except as to rate of return) to the Fixed Rate Deposit and the Floating Rate Deposit; if the first named fails to meet the criteria in (i) and (ii), the deposits will be made with the second on the list, and so on. If a bank (or its guarantor, as applicable) on the list ceases to have the Required Ratings, the bank may be replaced by the Security Trustee (acting on the instructions of the Controlling Creditor);

**“Distribution Determination Date”** means, in respect of a Distribution Payment Date, the first Business Day falling ten Business Days prior to such Distribution Payment Date;

**“Distribution Payment Date”** means 30 January, 30 April, 30 July and 30 October in each year, commencing 30 January 2008, save that if any such day would otherwise fall on a day which is not a Business Day, such Distribution Payment Date shall be postponed to the next succeeding Business Day unless such day falls in the next month, in which case it shall be the preceding Business Day;

**“Distribution Period”** means the period from, and including, the Closing Date to, but excluding, the first Distribution Payment Date and each period thereafter from, and including, one Distribution Payment Date to, but excluding, the next following Distribution Payment Date;

**“Distribution Rate Reset Date”** means, in respect of a Distribution Payment Date, the day which is 2 Business Days prior to the immediately preceding Distribution Payment Date (or, in the case of the first Distribution Payment Date, the Closing Date);

**“Dividend Stopper”** has the meaning given to it in the Support Agreement;

**“Dividend Stopper Period”** has the meaning given to it in the Support Agreement;

**“Dividend Stopper Remedy Date”** has the meaning given to it in the Support Agreement;

**“EURIBOR”** will be determined by the Calculation Agent on the following basis:

- (a) at or about 11.00 a.m. (Brussels time) on each Distribution Rate Reset Date, the Calculation Agent will determine the offered quotation to leading banks in the Euro-zone interbank market for three month euro deposits (or, in the case of the first Distribution Period, the linear interpolation of three and four months) (rounded to five decimal places with the mid-point rounded up) by reference to the display designated as EURIBOR01 as quoted on the Reuters Screen (the **“Screen Rate”**). If the agreed page is replaced or ceases to be available, the Calculation Agent may specify another page or service displaying the appropriate rate after consultation with the General Partner; or
- (b) if the Screen Rate is not then available for euro or for the Distribution Period of the relevant Limited Partnership Interests, the arithmetic mean of the rates (rounded to five decimal places with the midpoint rounded up) as supplied to the Calculation Agent at its request by the principal office of each of four major banks in the Euro-zone interbank market as selected by the Calculation Agent in its discretion (the **“Reference Banks”**) at or about 11.00 a.m. (Brussels time) on the Distribution Rate Reset Date for the offering of deposits to the leading banks in the Euro-zone interbank market in euro and for a period comparable to the Distribution Period. If on any Distribution Rate Reset Date, only three of four of the Reference Banks provide such offered quotations to the Calculation Agent, 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 Distribution Rate Reset Date, less than three quotations are provided as requested, the rate for that Distribution Rate Reset Date will be the arithmetic mean (rounded to five decimal places with the mid-point rounded up) of the rates quoted by leading banks in London selected by the Calculation Agent,

provided always that for so long as the Lender of the Insurance-linked Loan is Avondale Securities S.A., the Calculation Agent shall determine EURIBOR for a Distribution Period as the rate determined as **“EURIBOR”** by the Agent Bank for the Notes for the Interest Period (as defined in the terms and conditions of the Notes) commencing on the same date as such Distribution Period commences;

**“Final Distribution Date”** means the Distribution Payment Date falling in July 2032;

**“Financial Regulator for Ireland”** means the Irish Financial Services Regulatory Authority a constituent part of the Central Bank and Financial Services Authority of Ireland or such other national or supranational regulatory authority as may at the relevant time have primary responsibility for the regulation and supervision of banks in Ireland (or, if the Support Provider becomes domiciled in a jurisdiction other than Ireland, in such other jurisdiction);

**“General Partner”** means, prior to 28 September 2007, Openmulti Limited and thereafter Vida Pura Limited or any entity which becomes the general partner thereafter following any replacement of Vida Pura Limited pursuant to the Limited Partnership Agreement;

**“General Partner Capital Contribution”** means the initial capital contribution of €10,000 contributed to the assets of the Limited Partnership by the Initial General Partner and any further contributions by the General Partner to the assets of the Limited Partnership;

**“Group”** means the Support Provider and its Subsidiaries;

**“Holder”** means, in respect of the Savings-linked Limited Partnership Interest, the person stated on the Limited Partnerships’ Register to be the limited partner holding such Savings-linked Limited Partnership Interest at the relevant time;

**“Improper Purpose”** means a desire to:

- (a) reduce surplus emerging from the Dynamic Defined Block;
- (b) cause profit to be generated outside the Dynamic Defined Block (whether in BoI Life or another company) at the expense of the Dynamic Defined Block; or
- (c) prevent the identification of an Invalidity or to prevent the calculation of the effect or the full effect of an Invalidity.

**“Initial Limited Partner”** means College Green Limited;

**“Investment Powers of Attorney”** means the irrevocable powers of attorney granted by the General Partner (on behalf of the Limited Partnership and on its own behalf) to Ambac and the Security Trustee pursuant to the Support Agreement;

**“Limited Partnership”** means BOI VIF Funding (No. 1) LP;

**“Limited Partnership Agreement”** means an agreement dated 14 September 2007 between the General Partner and the Initial Limited Partner establishing the Limited Partnership, as the same has been or may be amended from time to time;

**“Limited Partnership’s Tax Jurisdiction”** means the jurisdiction in which the Limited Partnership is resident, domiciled or has its effective management for tax purposes;

**“Liquidation Distribution”** means, in respect of the SLLPI:

- (a) in the case of a Non-Sale Acceleration Event, the amount determined to be payable pursuant to paragraphs 22.2(b) and 22.3(b) as amended by paragraph 27.2(b) and 27.4 of Schedule 4 to the Limited Partnership Agreement (*see Part C below*);
- (b) in the case of a Sale Acceleration Event, other than one where paragraphs 30.1(d) and 30.4 apply, the amount determined to be payable pursuant to paragraph 22.2(b) and 22.3(b) as amended by paragraph 30 of Schedule 4 to the Limited Partnership Agreement (*see Part C below*);

**“Nominated Deposit Bank”** means Lloyds TSB Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Citibank N.A. or Bank of America N.A. or any other bank that may be nominated as such in accordance with the Deposits Policy;

**“Permitted Investment”** means:

- (a) prior to a Downgrade Direction Event, any euro-denominated investment that is one or more of the following: (i) a deposit (including the Deposits) with a branch of Bank of Ireland in Ireland or the United Kingdom or a branch of Bank of Ireland (IOM) Limited in the Isle of Man provided that Bank of Ireland has guaranteed its obligations and provided that it gives

notice confirming that it will recognise and comply with powers exercised pursuant to the Investment Powers of Attorney, in each case ranking *pari passu* with ordinary depositors of such institution, (ii) commercial paper or other money market debt instruments with a maturity of not more than 270 days from the date of issuance and having a rating at the time of such investment of “A-1+” by S&P and “P-1” by Moody’s, (iii) marketable debt securities listed on a regulated OECD exchange issued by any government of any member state of the European Union or any agency having a guarantee by or the full faith and credit of any government of any member state of the European Union that has a long term senior debt rating of “AAA” by S&P and “Aaa” by Moody’s which have a legal maturity earlier than the Maturity Date, provided that, in the case of (ii) and (iii) above, such investments shall be held with Bank of Ireland Securities Services Limited as custodian, acting through a branch in Ireland, the Isle of Man or the United Kingdom, and that such custodian gives notice confirming that it will recognise and comply with powers exercised pursuant to the Investment Powers of Attorney, and (iv) one non-voting class “A” share of €1.00 nominal amount in BoI Insurance Limited; and

- (b) following a Downgrade Direction Event, includes any euro-denominated investment described in (a) and any of the following, provided the same has been approved by Ambac (where it is the Controlling Creditor) or (other than deposits with the Nominated Deposit Banks) by the Note Trustee (where Ambac is not the Controlling Creditor) and are entered into on arm’s length terms: (i) reinvestment agreements (so long as payments under any such reinvestment agreement are not subject to withholding taxes) issued by any bank or other institution (if treated as a deposit by such bank or other institution), or a registered reinvestment agreement issued by any insurance company or other corporation or entity organized under the laws of the United States of America or any state thereof, in each case, that has a credit rating of not less than “Aaa” by Moody’s and not less than “AAA” by Standard & Poor’s; provided that if the issuer thereof has a short term rating from Standard & Poor’s or Moody’s, the issuer thereof must also have at the time of such investment a short-term credit rating of not less than “P-1” by Moody’s and not less than “A-1” by Standard & Poor’s; (ii) any other investment similar to those described in (i) above that each of the Rating Agencies has confirmed in writing may be included as a Permitted Investment without resulting in a qualification, downgrade or withdrawal of any of its then current ratings on the Notes and (iii) any deposit with a Nominated Deposit Bank or any other bank having the Required Ratings which is selected by Ambac (if it is the Controlling Creditor); provided that Permitted Investments shall not include: (x) any interest-only security or principal-only security, (y) any security purchased at a price in excess of 100% of the par value thereof or (z) any security the rating of which by Standard & Poor’s includes the subscript “p”, “pi”, “q”, “r” or “t”;

“**Relevant Margin**” has the meaning given to it on the Closing Date in the terms and conditions of the Notes;

“**Required Ratings**”, in respect of a person, means the long term, senior, unsecured and unguaranteed debt obligations of such person are, or are unconditionally and irrevocably guaranteed by a person whose long term, senior, unsecured and unguaranteed debt obligations are, rated at least “A2” by Moody’s (or any successor to its ratings business) and “A-” by S&P (or any successor to its ratings business), provided that if a person ceases to have such a rating due to such rating agency ceasing to rate securities generally (and not merely the securities of such person) the rating prior to such cessation shall be deemed to continue until a successor rating agency and rating sub-category has been agreed between the General Partner and the Lender;

“**Replacement Partnership Asset**” means a Permitted Investment held or to be held as an asset of the Limited Partnership;

“**Savings-linked Limited Partner**” means, at any time, the Holder of the SLLPI;

**“Savings-linked Limited Partner Capital Contribution”** means, in relation to the Savings-linked Limited Partnership Interest, the capital contribution of €1,000 required to be contributed to the assets of the Limited Partnership by the Holder on the Closing Date;

**“Savings Surplus Election”** means the election made by the General Partner in respect of distributions on the SLLPI pursuant to paragraph 26 of Schedule 4 to the Limited Partnership Agreement (*see Part C below*);

**“SLLPI”** means the Savings-linked Limited Partnership Interest;

**“Subsidiary”** means any entity which is for the time being a subsidiary or subsidiary undertaking of the Support Provider (within the meaning of the Companies Acts including the European Communities (Companies Group Accounts) Regulations, 1992 of Ireland);

**“Support Agreement”** means the Support Agreement in respect of the Limited Partnership Interests entered into, *inter alia*, by the Support Provider and the General Partner (on behalf of the Limited Partnership) on 25 October 2007;

**“Support Provider”** means The Governor and Company of the Bank of Ireland and its successors and assignees;

**“tax”** means any present or future taxes or duties of whatsoever nature imposed or levied by or on behalf of a relevant jurisdiction or any political subdivision of or by any authority therein or thereof having power to tax;

**“Tax Credit”** means a repayment of, or a credit against, or relief or remission for, or any tax;

**“Tax Deduction”** means a deduction or withholding for or on account of tax;

**“Tax Payment”** means the increase in a payment by the Limited Partnership to the Holder under paragraph 5.2;

**“Treaty”** means a convention for the avoidance of double taxation between the jurisdiction in which the Holder is resident and that Limited Partnership’s Tax Jurisdiction or the jurisdiction of the source of the interest (if different).

In this description of the Savings-linked Limited Partnership Interests any reference to a particular time shall, unless otherwise specified, be to that time in London.

## **2. DISTRIBUTIONS**

2.1 Distributions out of profits (being SLLPI Profit Distribution Amounts and SLLPI Loan Reduction Profit Amounts, together (the **“Distributions”**)), on the Savings-linked Limited Partnership Interests will be payable on each Distribution Payment Date in the amount determined to be payable pursuant to Schedule 4 to the Limited Partnership Agreement (*see Part C below*) and provided that the General Partner has made a Savings Surplus Election with respect to such Distribution Payment Date. If a Savings Surplus Election is not made (and is not deemed made) with respect to a Distribution Payment Date, the Distribution Amount shall be zero.

2.2 Distributions will be payable by the General Partner (on behalf of the Partnership) to the Savings-linked Limited Partner quarterly on each Distribution Payment Date in respect of which a Savings Surplus Election has been made on the Savings-linked Limited Partnership Interest and will be equal to the Distribution Amount (*see Part C below*).

2.3 The amount of each Distribution (each a “**Distribution Amount**”) shall be determined on each Distribution Determination Date in accordance with the provisions set out in Schedule 4 to the Limited Partnership Agreement (*see Part C below*).

2.4 If the General Partner determines to make a Savings Surplus Election it shall give notice thereof to the Holder in accordance with paragraph 9 below and such election shall apply to such Distribution Payment Dates unless such date is a date on which a Liquidation Distribution is payable (other than in respect of a BoI Life Disposal Event or BoI Life Asset Disposal Event), in which event a further election will be required as described below. If the Limited Partnership is to be dissolved prior to the Final Distribution Date or notice has been given pursuant to paragraph 4.2 or 4.3, the General Partner shall determine (where it is not deemed to have determined) whether to make the Savings Surplus Election in respect of such dissolution or in respect of the Distribution Payment Date on which a Liquidation Distribution would (if the election were made) be payable. If it does, the amount payable in respect of the SLLPI on dissolution or on such Distribution Payment Date shall be the Liquidation Distribution.

2.5 In the event that any Distribution is not to be paid in full, the General Partner will notify the Holder, in accordance with paragraph 9, of the amount, if any, to be paid in respect of that Distribution.

2.6 The Distributions shall not reduce the SLLPI Capital Contribution Account to which the Savings-linked Limited Partner’s Capital Contribution is credited. The Distributions are distributions of profit in respect of such contribution. The Savings-linked Limited Partner’s Capital Contribution shall be payable out of partnership assets on a dissolution of the Limited Partnership and will not be entitled to share in the profits of the Limited Partnership beyond the Distribution Amounts, save that on dissolution the SLLPI shall be entitled to receive an additional distribution equal to the lower of €1,000 and a share of the profits of the Limited Partnership determined as the profits from the Closing Date to the date of dissolution multiplied by a fraction A/B where A is €1,000 and B is the sum of €440,000,000, the General Partner’s Capital Contribution and the Initial Limited Partner’s capital contribution.

2.7 The intent of the IL Loan, SLLPI and related Accounts structure is to document the payments made by and due from the Limited Partnership upon which the Issuer relies to pay interest on and repay the principal of the Notes and to pay its expenses (including amounts due to Ambac). To the extent that Insurance VIF and Savings VIF emerge in sufficient amounts to pay such amounts (and, (i) in the case of Savings VIF, assuming a Savings Surplus Election is made and (ii) assuming no Replacement Deposit Bank Deficiency or other Post-DDE Loss Amount), the payments made by and due from the Partnership in respect of the IL Loan and SLLPI are expected to be sufficient (a) on each Interest Payment Date to pay interest on the Notes and to pay the Issuer’s expenses (including amounts due to Ambac) and (b) ultimately, to repay the principal of the Notes.

2.8 In the event that Ambac or Bank of Ireland gives notice that it considers that the provisions of Schedule 4 to the Limited Partnership Agreement (*see Part C below*) are giving rise to materially incorrect results (having regard to the descriptions in the Prospectus and the intention stated in paragraph 2.7), the provisions shall be amended to achieve the intent with the agreement of each of them or, in the absence of agreement, by reference to an independent actuary agreed between them or appointed by the President of the Society of Actuaries in Ireland (or any successor body), and the other parties to the Limited Partnership Agreement shall agree to any such amendment.

### **3. PAYMENTS ON DISSOLUTION**

3.1 Subject to paragraphs 4 and 5, in the event a Dissolution Event occurs in respect of the Limited Partnership prior to the Final Distribution Date, the Holder of the SLLPI will, if the General Partner makes a Savings Surplus Election in respect thereof, be entitled to receive Liquidation Distributions out of the assets of the Limited Partnership available for distribution to such Holder

under the Act. Any rights of the General Partner and the holder of any other partnership interests issued by the Limited Partnership to receive any payments from the Limited Partnership shall be subordinated to the rights of the Holder of the SLLPI to receive the Liquidation Distributions.

3.2 If a dissolution occurs following the Maturity Date, the amount payable following dissolution shall be the return of the €1,000 capital contributed plus the additional amount specified in clause 2.6.

3.3 After payment of all Liquidation Distributions and amounts in paragraph 3.2 above in respect of the SLLPI and any liquidation distributions payable to any other limited partner, the General Partner will be entitled to any remaining assets of the Limited Partnership representing proceeds of the sale or redemption of the Limited Partnership's partnership assets and the Holder will have no right or claim to any of the remaining assets of the Limited Partnership or the Support Provider (save with respect to the amount payable to the Holder of the SLLPI on dissolution).

#### **4. DISTRIBUTIONS ON FINAL DISTRIBUTION DATE, AND FOLLOWING AN ACCELERATION EVENT**

4.1 Following the Final Distribution Date no distributions (other than any Distribution Amount then due but unpaid and any unpaid amount in paragraph 3.2) shall be made. Save as provided in the Agreement and subject to the Act, a Holder has no rights to call for the redemption of the Savings-linked Limited Partnership Interest. Any redemption is subject to the provisions of the Act.

4.2 If any Non-Sale Acceleration Event occurs, the General Partner shall, provided it makes or is deemed to make a Savings Surplus Election in respect thereof, pay the Liquidation Distribution on the date determined in accordance with Schedule 4 to the Limited Partnership Agreement (*see Part C below*), in the case of a Non-Sale Acceleration Event (other than a Dissolution Event), paragraph 27 and in the case of a Dissolution Event, paragraph 28, subject to and in accordance with applicable law and regulation, and no further distributions shall be paid other than the amount specified in paragraph 2.6 on dissolution of the Limited Partnership.

4.3 If a Sale Acceleration Event occurs, then the provisions of paragraph 30 of Schedule 4 to the Limited Partnership Agreement (*see Part C below*) shall apply.

#### **5. ADDITIONAL AMOUNTS**

5.1 The Limited Partnership shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

5.2 If a Tax Deduction is required by law to be made by the Limited Partnership, the amount of the payment due from the Limited Partnership shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required (such amount being the "**Additional Amount**").

5.3 If the Limited Partnership is required to make a Tax Deduction, the Limited Partnership shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.

5.4 If the Limited Partnership makes a Tax Payment and a Tax Credit is attributable either to an increased payment of which that Tax Payment forms part or to that Tax Payment, the Holder shall pay an amount to the Limited Partnership equal to that Tax Credit once it has been obtained and the Holder has received the benefit of such Tax Credit by way of cash or in some other form.

5.5 The following procedure shall apply if a Tax Deduction in accordance with the terms of this paragraph 5 has been made:



- (a) Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Limited Partnership shall deliver to the Holder evidence reasonably satisfactory to it that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.
- (b) The Limited Partnership and the Holder shall co-operate in completing any procedural formalities necessary for the Limited Partnership to obtain authorisation to make payments without a Tax Deduction and, to the extent a Tax Deduction is made, for the Holder to obtain a Tax Credit in respect of such Tax Deduction, including making and filing an appropriate application for relief under:
  - (i) the domestic law of that Limited Partnership's Tax Jurisdiction or the jurisdiction of source of the interest (if different);
  - (ii) a Treaty between the jurisdiction in which the relevant Holder is resident and that Limited Partnership's Tax Jurisdiction or the jurisdiction of source of the interest (if different); or
  - (iii) EU law.

5.6 No such Additional Amounts will be payable to a Holder (or to a third party on his behalf) with respect to the SLLP to the extent that such Tax is imposed or levied by virtue of such Holder (or the beneficial owner) of the SLLP having some connection with the relevant jurisdiction, other than merely being a Holder (or beneficial owner) of such SLLPI.

## 6. PAYMENTS

6.1 Distributions will be payable in accordance with the Act on each relevant Distribution Payment Date to the Holder of record as they appear on the Register on the relevant record date, which will be the fifth Business Day prior to the relevant Distribution Payment Date.

6.2 The General Partner will cause the Calculation Agent, as soon as practicable after 11:00 a.m., London time on each Distribution Determination Date, to determine the Distribution Amount payable on the Savings-linked Limited Partnership Interest.

6.3 Save as described above, the Holder will have no right to participate in the profits of the Limited Partnership and in particular will have no rights to receive from the Limited Partnership amounts paid to the Limited Partnership in respect of its partnership assets in excess of Distribution Amounts due and payable under the Savings-linked Limited Partnership Interest. In the event that any amounts received by the Limited Partnership in respect of its partnership assets exceed the amount (if any) then due by way of Distribution Amount under the Savings-linked Limited Partnership Interest, the amount of such excess will be allocated to and, subject to paragraph 8.1(f), paid to the General Partner and the Holder of the Savings-linked Limited Partnership Interest will have no rights in respect thereof. The liability of a Holder of the Savings-linked Limited Partnership Interest to contribute to the debts or obligations of the Limited Partnership (if any) shall (subject to the Act) not exceed the amount of that Savings Limited Partnership Capital Contribution of €1,000.

6.4 All percentages resulting from any of the above calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards (e.g. 3.576545% (or .03576545) being rounded to 3.57655% (or .0357655)) and all euro amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent being rounded upwards).

6.5 The General Partner will cause the Distribution Amount for each Distribution Period to be notified to the Limited Partnership, the Issuer Cash Manager, the Security Trustee, Ambac and the

Support Provider by no later than the first Business Day following the Distribution Determination Date.

6.6 All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph 6 and Schedule 4 to the Limited Partnership Agreement (*see Part C below*) and by the Calculation Agent will (in the absence of wilful default, bad faith or manifest error) be binding on the Limited Partnership, the Support Provider and all Holders and (in the absence of wilful default, bad faith or manifest error) no liability to the Limited Partnership, the Support Provider or the Holder shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this paragraph 6.

6.7 Subject to all applicable fiscal or other laws and regulations each payment will be made by direct transfer if appropriate direct transfer instructions have been received by the General Partner in sufficient time prior to the relevant date of payment, provided, however, that a Holder may receive such payment by cheque and mailed to the Holder at such Holder's address as notified by the Holder in writing to the General Partner from time to time if such transfer instructions have not been received prior to the second Business Day preceding the relevant payment date. The Holder will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if a cheque mailed in accordance with this paragraph arrives after the due date for payment.

6.8 In the event that payment of the Liquidation Distribution in respect of any Savings-linked Limited Partnership Interest is improperly withheld or refused and not paid by the Limited Partnership, interest will accrue on the amount not paid, from the redemption date to the date of actual payment in full of such Liquidation Distribution at EURIBOR plus the Projected Spread Rate, compounded quarterly on each date which would be a Distribution Payment Date.

## **7. ACTIONS BY THE HOLDER**

7.1 Except as described below and provided for in the Act, the Holder will not be entitled to receive notice of, or attend or vote at, any meeting of partners in the Limited Partnership or take part in the management of the Limited Partnership.

7.2 The consent in writing of the Holder of the Savings-linked Limited Partnership Interest shall be required in order to give effect to any variation or abrogation of the rights, preferences and privileges of the Savings-linked Limited Partnership Interest by way of amendment of the Limited Partnership Agreement or otherwise (unless otherwise provided in the terms of the Savings-linked Limited Partnership Interest or as required by applicable law).

7.3 Notwithstanding the foregoing, the agreement of the Holder will not be required for the dissolution of the Limited Partnership following the earlier of (i) the date on which the IL Loan Account Balance, the Deficit Account Balance, the Missed Spread Account Balance and the Missed SLLPI EURIBOR Account Balance is zero and no Distribution Amounts remain unpaid and (ii) five Business Days following the Final Distribution Date.

7.4 The General Partner will cause a notice of any meeting at which the Holder is entitled to vote and any voting forms to be mailed to the Holder. The notice will include a statement setting forth (a) the date, time and place of such meeting, (b) a description of any resolution to be proposed for adoption at such meeting on which the Holder is entitled to vote and (c) instructions for the delivery of proxies.

## **8. COVENANTS OF THE GENERAL PARTNER**

The General Partner will undertake

- (a) not to incur any indebtedness in the name of the Limited Partnership other than the costs and expenses incidental to creating the Limited Partnership;
- (b) to create, issue and perform its and the Limited Partnership's obligations with respect to the Savings-linked Limited Partnership Interest and any other partnership interest in the Limited Partnership;
- (c) to exercise the Limited Partnership's rights in respect of the Limited Partnership's assets and any other investments acquired
- (d) to administer the Limited Partnership with the due care and skill of a professional manager;
- (e) not to permit or take any action that would or might cause the occurrence of an Insolvency Event or Dissolution Event in respect of the Limited Partnership;
- (f) not to take any capital or profits from the Limited Partnership until seven Business Days following the earlier of (i) the Maturity Date and (ii) the date on which the IL Loan Account Balance is reduced to zero and no amounts stand to the credit of the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid);
- (g) to comply in a timely manner with any Downgrade Direction Notice;
- (h) not to amend or terminate or waive any right under or assign to any other person any of its rights under the Support Agreement or the Limited Partnership Agreement, save as required under a Transaction Document to which it is a party;
- (i) to enforce its rights under the Transaction Documents to which it is a party; and
- (j) not to resign as general partner of the Limited Partnership, save as permitted under a Transaction Document to which it is a party.

## 9. NOTICES

All notices to the Holders will be mailed to the Holder of record with a copy to Ambac. Any mailed notice shall be deemed to have been given one clear day after the date on which it was posted. Notices may be given in such other way as the General Partner and the Holders may from time to time agree.

## 10. TRANSFERS AND FORM

10.1 The Savings-linked Limited Partnership Interest will be in registered form representing the initial capital contribution of €1,000. No certificates shall be issued. The register shall, in the absence of fraud or bad faith be conclusive.

10.2 The Holder may not sell, transfer, assign, or create any mortgage, charge, lien or other security interest in or over or create any interest or trust in, over or out of its rights in respect of the SLLPI without the prior written consent of the General Partner, save that it may charge its rights pursuant to the Issuer Deed of Charge and, following enforcement of the security created thereby, its rights in respect of the SLLPI or the SLLPI may be transferred to a receiver appointed pursuant to the Issuer Deed of Charge.

## 11. PRESCRIPTION

Claims against the Limited Partnership for payment of Distributions and sums in respect of the Liquidation Distribution will be prescribed in accordance with English law unless made within 10

years from the date on which such payment or substitution becomes due or, if later, the date on which the Limited Partnership makes such payment available to Holders.

**12. GOVERNING LAW AND JURISDICTION**

12.1 The Limited Partnership Agreement and the Savings-linked Limited Partnership Interests shall be governed by, and construed in accordance with, English law.

12.2 The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Holder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

**C OPERATION OF THE CAPITAL ACCOUNTS, DISTRIBUTIONS OF PROFIT AND PAYMENTS IN RESPECT OF THE IL LOAN**

**1. DEFINITIONS**

**“Acceleration Date”** means the Distribution Payment Date first following the Distribution Determination Date first following the occurrence of an Acceleration Event;

**“Acceleration Event”** means the occurrence of any of (i) a Dissolution Event, (ii) a BoI Life Licence Acceleration Event, (iii) a Dividend Stopper Non-Compliance Event, (iv) a BoI Life Disposal Event and (v) a BoI Life Asset Disposal Event;

**“Accounting Date”** means, in each year, the third Sunday in March of that year or such other date in March to which BoI Life prepares the valuation for Bank of Ireland's annual accounts, provided that if Bank of Ireland changes its financial year end from March the Accounting Date shall be such date to which the financial year end is moved. Notwithstanding the foregoing, if the result would be that the last Accounting Date would occur prior to the third Sunday in March 2032, the third Sunday in March 2032 will also be an Accounting Date;

**“Amortisation Event”** has the meaning given to it in the terms of the IL Loan and SLLPI;

**“Amortisation Period”** means the period beginning on and from the later of the Closing Date and the last date (being the end of an Accounting Period) as at which the Dynamic Defined Block Tests were applied and satisfied, and an Accounting Period will be included in the Pre-Amortisation Period (and will therefore not be included in the Amortisation Period) if the Dynamic Defined Block Tests are applied and satisfied as at the end of it and will not fall in the Pre-Amortisation period (and will therefore be included in the Amortisation Period) if the Dynamic Defined Block Tests are not applied or are applied and not satisfied as at the end of it;

**“Annual Determination Date”** means the Distribution Determination Date falling immediately prior to the Distribution Payment Date in July in each year from and including July 2008 to and including July 2032, provided that (i) if the Accounting Date is in a month other than March it shall be the corresponding day of the Distribution Determination Date falling immediately prior to the Distribution Payment Date first falling in or following the fourth month following the Accounting Date and (ii) the Distribution Determination Date first occurring after an Acceleration Event will also be an Annual Determination Date;

**“Bank of Ireland Insolvency Event”** means an order being made that Bank of Ireland be wound up (other than pursuant to a consolidation, amalgamation or merger in respect of which substantially all its assets and liabilities are transferred to another person);

**“BoI Balance Sheet Discount Rate”** on an Annual Determination Date is the discount rate applied by Bank of Ireland in its last published annual accounts in discounting the value-in-force in respect of insurance contracts;

**“BoI Life Disposal Event”** means (a) a sale by Bank of Ireland or another member of the Group of the controlling interest in BoI Life other than to a member of the Group in one sale or a series of sales or (b) a disposal by Bank of Ireland or another member of the Group in one transaction or a series of transactions other than with a member of the Group of the majority of the economic interest in the shares in BoI Life. For these purposes a **“controlling interest”** in a person exists if a person has a majority of the voting rights in such person or owns shares representing the majority of the net equity of such person whether or not such equity securities have any voting rights;

**“BoI Life Asset Disposal Event”** shall occur if either of the two following tests are met:

- (a) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the commencement of the Amortisation Period is equal to or greater than 50 per cent. of the Projected VIF at the commencement of the Amortisation Period; or
- (b) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the prior Annual Determination Date is equal to or greater than 50 per cent. of the Projected VIF as at such Annual Determination Date;

**“BoI Life Licence Acceleration Event”** shall occur if BoI Life ceases to maintain its authorisation under the European Communities (Life Assurance) Framework Regulations 1974 of Ireland (or any successor legislation) necessary to carry on business of the class in which any Policy falls;

**“Class A-1 Notes”** means the Class A-1 Notes issued by Avondale Securities S.A. pursuant to a trust deed dated on or about the Closing Date between, *inter alios*, Avondale Securities S.A. and BNY Corporate Trustee Services Limited;

**“Class A-2 Notes”** means the Class A-2 Notes issued by Avondale Securities S.A. pursuant to a trust deed dated on or about the Closing Date between, *inter alios*, Avondale Securities S.A. and BNY Corporate Trustee Services Limited;

**“Conditions”** means the terms and conditions of the Notes;

**“Deficit Account”** means the deficit account established and maintained by or on behalf of the General Partner as described below;

**“Deficit Account Balance”** means, at any time, the credit balance standing to the Deficit Account at that time, as determined from time to time as described below;

**“Deficit Account Closing Balance”** means, in respect of an Accounting Period, the Deficit Account Opening Balance in respect of such Accounting Period plus all credits thereto and less debits therefrom required to be made in accordance with this Part C on the Distribution Payment Date first following the Annual Determination Date first following the end of such Accounting Period;

**“Deficit Account Opening Balance”** means, in respect of the Accounting Period commencing on 30 June 2007, zero, and thereafter the Deficit Account Closing Balance for the immediately preceding Accounting Period;

**“Deficit Account Write-down Amount”** means an amount determined as at an Annual Determination Date equal to the IL Write-up Amount determined in respect of such date;

**“Deficit Account Pre-Write-down Balance”** has the meaning given to it in paragraph 6.1 (in respect of the Pre-Amortisation Period) and paragraph 15.1 (in respect of the Amortisation Period);

**“Dissolution Event”** means the dissolution of the Limited Partnership other than any dissolution occurring in respect of any partner transferring its interest in the Partnership or other “technical” dissolution;

**“Dividend Stopper”** has the meaning given to it in the Support Agreement;

**“Dividend Stopper Non-Compliance Event”** has the meaning given to it in the Support Agreement;

**“Dynamic Defined Block Tests”** means the procedures to determine whether it is necessary for further policies to be added to the Dynamic Defined Block, and the Dynamic Defined Block Tests will be “satisfied” if they are applied and they do not result in an Amortisation Event;

**“Economic Equivalent of Sale Proceeds”** means an increase in net assets due to a reduction in reserves arising from a transfer of assets and liabilities where assets transferred are lower than the assets backing the liabilities transferred in respect of the policies transferred immediately prior to the transfer;

**“EURIBOR Payment Amount”** means, in respect of a Distribution Payment Date, the amount calculated as a product of (i) the EURIBOR Principal Balance at the beginning of the Distribution Period ending on such Distribution Payment Date; (ii) EURIBOR; and (iii) the Day Count Fraction in respect of such Distribution Period;

**“EURIBOR Principal Balance”** has the meaning given to it in paragraph 23.2;

**“EURIBOR Principal Tracking Account”** means the account of that name established and maintained by or on behalf of the General Partner as described below;

**“GP Account”** means the account of the General Partner of that name established and maintained by the General Partner as described below;

**“GP Account Closing Balance”** means, in respect of an Accounting Period, the GP Account Opening Balance in respect of such Accounting Period plus all credits thereto and less debits therefrom required to be made in accordance with this Part C on the Distribution Payment Date first following the Annual Determination Date first following the end of such Accounting Period;

**“GP Account Opening Balance”** means, in respect of the Accounting Period commencing on 30 June 2007, the aggregate amount paid to the Limited Partnership as a dividend on its Class “A” share in BoI Insurance Limited on or prior to the Closing Date and thereafter the GP Account Closing Balance for the immediately preceding Accounting Period plus any subsequent capital contributions made by the General Partner;

**“GP Capital Contribution Account”** means the capital account of the General Partner(s) established and maintained by or on behalf of the General Partner to which the initial and any subsequent General Partner Capital Contribution is to be credited and which is operated by (or on behalf of) the General Partner as described below;

**“IL Impairment Amount”** means the amount determined as at an Annual Determination Date as the greater of (i) zero and (ii) the IL Loan Account Opening Balance on such Annual Determination Date plus the Initial Insurance Overpaid Spread Account Balance less the Positive Annual Recourse Insurance Cashflow Amount for the Accounting Period ending immediately prior to such Annual Determination Date and less the Projected Balance Sheet Insurance VIF determined in respect of the Accounting Date immediately prior to such Annual Determination Date;

**“IL Loan Account”** means the account established and maintained by or on behalf of the General Partner to which the initial Insurance-linked Loan is to be credited and which is operated by (or on behalf of) the General Partner as described below;

**“IL Loan Account Balance”** on any day means the balance on the IL Loan Account after all debits and credits have been made thereto on that day;

**“IL Loan Account Closing Balance”** means, in respect of an Accounting Period, the IL Loan Account Opening Balance in respect of such Accounting Period plus all credits thereto and less all debits therefrom required to be made in accordance with this Part C on the Distribution Payment Date first following the Annual Determination Date first following the end of such Accounting Period;

**“IL Loan Account Opening Balance”** means, in respect of the Accounting Period commencing on 30 June 2007, the amount of the Insurance-linked Loan made by the Insurance-linked Lender on the

Closing Date and thereafter the IL Loan Account Closing Balance for the immediately preceding Accounting Period;

**"IL Loan Pre-Write-up Balance"** has the meaning given in paragraph 14.3;

**"IL Principal Repayment"** means an amount paid pursuant to paragraph 13.3(a), 22.3(a) or 27.2(a)(ii) below;

**"IL Write-up Amount"** means the amount determined as at an Annual Determination Date as the lower of (i) the Deficit Account Opening Balance as at the Accounting Date at the beginning of the Accounting Period ended immediately prior to such Annual Determination Date (after all debits and credits have been made thereto on that date) and (ii) the greater of (A) zero and (B) the Projected Balance Sheet Insurance VIF determined in respect of the Accounting Date immediately prior to such Annual Determination Date less the IL Loan Account Opening Balance on such Annual Determination Date less the Initial Insurance Overpaid Spread Account Balance as at such Annual Determination Date plus the Positive Annual Recourse Insurance Cashflow Amount determined in respect of the Accounting Period ending immediately prior to such Annual Determination Date;

**"Initial Insurance Overpaid Spread Account Balance"** has the meaning given in paragraph 9.1 in respect of an Annual Determination Date related to an Accounting Period included in the Pre-Amortisation Period and has the meaning given in paragraph 18.1 in respect of an Annual Determination Date related to an Accounting Period included in the Amortisation Period;

**"Initial Savings Cashflow Tracking Account Balance"** has the meaning given in paragraph 12.1 in respect of an Annual Determination Date related to an Accounting Period included in the Pre-Amortisation Period and has the meaning given in paragraph 21.1 in respect of an Annual Determination Date related to an Accounting Period included in the Amortisation Period;

**"Insurance EURIBOR"** means, in respect of a Distribution Payment Date, an amount equal to the EURIBOR Payment Amount in respect of such date multiplied by the fraction  $A/B$  where A is the IL Loan Account Balance at the beginning of the Distribution Period ending on such Distribution Payment Date and B is the sum of the IL Loan Account Balance and the Deficit Account Balance at the beginning of the Distribution Period ending on such Distribution Payment Date (such account balances being calculated after all debits and credits have been made thereto);

**"Insurance Funded Overpaid Spread"** has the meaning given to it in paragraph 13.1 (in respect of the Pre-Amortisation Period) and paragraph 22.1(a) (in respect of the Amortisation Period);

**"Insurance Interest Reduction Amount"** has the meaning given to it in paragraph 9.4 in respect of the Pre-Amortisation Period and paragraph 18.4 in respect of the Amortisation Period;

**"Insurance Overpaid Spread Account"** means the overpaid spread account established and maintained by or on behalf of the General Partner as described below;

**"Insurance Overpaid Spread Account Balance"** means, at any time, the balance standing to the credit of the Insurance Overpaid Spread Account at that time;

**"Insurance Spread"** means, in respect of a Distribution Payment Date, an amount calculated as the sum of (a) the Spread in respect of such date multiplied by the fraction  $A/B$  where A is the IL Loan Account Balance at the beginning of the Distribution Period ending on such Distribution Payment Date and B is the sum of the IL Loan Account Balance and the Deficit Account Balance at the beginning of the Distribution Period ending on such Distribution Payment Date (such account balances being calculated after all debits and credits have been made thereto) and (b) the Mismatch Amount in respect of the Distribution Payment Date;



**“Insurance Spread Requirement”** means, in respect of a Spread Calculation Period, the sum of the Insurance Spread amounts (ignoring any Insurance Interest Reduction Amount) payable in respect of each Distribution Period occurring during such Spread Calculation Period;

**“Interest Period”** has the meaning given to it in the terms and conditions of the Notes;

**“Intermediate Insurance Overpaid Spread Account Balance”** has the meaning given in paragraph 9.2 in respect of an Annual Determination Date related to an Accounting Period included in the Pre-Amortisation Period and has the meaning given in paragraph 18.2 in respect of an Annual Determination Date related to an Accounting Period included in the Amortisation Period;

**“LP Funded Expense Amount”** means, in respect of a Distribution Payment Date, the aggregate amount of expenses falling to be paid on the Interest Payment Date corresponding to the Distribution Payment Date pursuant to (A) Condition 3(m)(i), (ii), (iii), (iv), (vi)(B)(1), (viii)(A), (viii)(B), (xvi) and (xvii) (excluding (I) interest under (iv), (vi)(B)(1), (viii)(A) and (viii)(B) to the extent it accrues at a rate less than or equal to EURIBOR plus the Weighted Average Spread Rate and (II) if an amount has been taken into account on a prior Distribution Payment Date, to the extent of such amount) or (B) Condition 3(n)(i), (ii), (iii), (iv), (vi)(B)(1), (viii)(A), (viii)(B), (xv), and (xix) (excluding (I) interest under (iv), (vi)(B)(1), (viii)(A) and (viii)(B) to the extent it accrues at a rate less than or equal to EURIBOR plus the Weighted Average Spread Rate and (II) if an amount has been taken into account on a prior Distribution Payment Date, to the extent of such amount);

**“Mismatch Amount”** means, in respect of a Distribution Payment Date, the greater of zero and the amount given by:

- (a) the amount that the aggregate of the EURIBOR Payment Amount and the Spread in respect of such Distribution Payment Date would be if the EURIBOR Principal Balance were equal to the amount given by:
- (i) the aggregate principal amount of the Notes on such Distribution Payment Date;
- PLUS
- (ii) the amount of any accrued but unpaid interest on the Notes;
- PLUS
- (iii) amounts drawn down under the Liquidity Facility Agreement or withdrawn from the Issuer Liquidity Reserve Account to fund interest on the Notes which have not previously been repaid or credited back to the Issuer Liquidity Reserve Account;
- PLUS
- (iv) amounts owed to Ambac in respect of payments by Ambac under the Financial Guarantee Reimbursement Agreement or the Liquidity Facility Reimbursement Agreement, to the extent not covered by rights of subrogation or reimbursement included in (i), (ii) or (iii);
- MINUS
- (v) the Missed SLLPI EURIBOR Account Balance on such Distribution Payment Date;
- MINUS
- (b) the aggregate amount of the EURIBOR Payment Amount and the Spread in respect of such Distribution Payment Date.

For the avoidance of doubt, it is not expected that the Mismatch Amount will ever yield an amount;

**"Missed Spread Account"** means the account of that name established and maintained by or on behalf of the General Partner as described below;

**"Missed Spread Account Balance"** means, at any time, the balance standing to the credit of the Missed Spread Account;

**"Missed SLLPI EURIBOR Account"** means the account of such name established and maintained by or on behalf of the General Partner as described below;

**"Negative Insurance Surplus Tracking Account"** means the account of that name established and maintained by or on behalf of the General Partner as described below.

**"Negative Insurance Surplus Tracking Account Balance"** means, on any day, the balance on the Negative Insurance Surplus Tracking Account;

**"Non-Sale Acceleration Event"** means the occurrence of any of (i) a BoI Life Licence Acceleration Event, (ii) a Dividend Stopper Non-Compliance Event or (iii) a Dissolution Event;

**"Notes"** means the Class A-1 Notes and the Class A-2 Notes;

**"Partial Sale Event"** means that on an Annual Determination Date the General Partner determines that a Partial Sale Event has occurred pursuant to paragraph 29 below;

**"Partnership Accounts"** means the Deficit Account, the GP Capital Contribution Account, the GP Account, the IL Loan Account, the SLLP Account, the SLLP Capital Contribution Account, the Savings Cashflow Tracking Account, the EURIBOR Principal Tracking Account, the Insurance Overpaid Spread Account, the Savings Overpaid Spread Account, the Missed Spread Account and the Missed SLLPI EURIBOR Account and the Negative Insurance Surplus Tracking Account;

**"Positive Annual Recourse Insurance Cashflow Amount"** means, in respect of an Accounting Period, the greater of zero and the Annual Recourse Insurance Cashflow Amount in respect of that Accounting Period (after taking account of any carried forward Negative Insurance Surplus Tracking Account Balance);

**"Pre-Amortisation Period"** means the period from the Closing Date until the beginning of the Amortisation Period;

**"Principal Balance"** means, on any Annual Determination Date, the aggregate of the IL Loan Account Opening Balance and the absolute amount of the Deficit Account Balance, in each case as at the beginning of the Accounting Period ending immediately prior to such Annual Determination Date;

**"Projected Balance Sheet Insurance VIF"** means, in respect of an Annual Determination Date, the amount which would be the Projected Insurance VIF were the discount rate applied in determining Projected Insurance VIF the BoI Balance Sheet Discount Rate instead of the Projected Spread Rate;

**"Relevant Margin"** has the meaning given to it on the Closing Date in the terms and conditions of the Notes;

**"Sale Acceleration Event"** means the occurrence of any of (i) a BoI Life Disposal Event and (ii) a BoI Life Asset Disposal Event;

**"Savings Cashflow Tracking Account"** means the account of that name maintained by or on behalf of the General Partner to which, *inter alia*, Annual Recourse Savings Cashflow Amounts are to be credited and which is operated by (or on behalf of) the General Partner as set out in this Part C;

**“Savings Cashflow Tracking Account Balance”** means at any time, the then credit balance on the Savings Cashflow Tracking Account;

**“Savings EURIBOR”** means, in respect of a Distribution Payment Date, an amount equal to the EURIBOR Payment Amount in respect of such date multiplied by the fraction  $C/B$  where C is the Deficit Account Balance at the beginning of the Distribution Period ending on such Distribution Payment Date and B is the sum of the IL Loan Account Balance and the Deficit Account Balance at the beginning of the distribution period ending on such Distribution Payment Date (such account balances being calculated after all debits and credits have been made thereto);

**“Savings Funded Overpaid Spread”** means on any Annual Determination Date in respect of which the General Partner makes the Savings Surplus Election, the amount determined in respect of the Amortisation Period the amount determined pursuant to paragraph 22.1(b)(i);

**“Savings Funded Insurance Overpaid Spread”** means on any Annual Determination Date in respect of which the General Partner makes the Savings Surplus Election, the amount determined in the Pre-Amortisation Period pursuant to paragraph 13.1(b)(i) and in respect of the Amortisation Period the amount determined pursuant to paragraph 22.1(b)(iii);

**“Savings Overpaid Spread Account”** means the overpaid spread account established and maintained by or on behalf of the General Partner as described below;

**“Savings Overpaid Spread Account Balance”** means, at any time, the balance standing to the credit of the Savings Overpaid Spread Account;

**“Savings Spread”** means, in respect of a Distribution Payment Date, an amount equal to the Spread in respect of such date multiplied by the fraction  $C/B$  where C is the Deficit Account Balance at the beginning of the Distribution Period ending on such Distribution Payment Date and B is the sum of the IL Loan Account Balance and the Deficit Account Balance at the beginning of the Distribution Period ending on such Distribution Payment Date (such account balances being calculated after all debits and credits have been made thereto);

**“Savings Spread Requirement”** means in respect of a Spread Calculation Period, the sum of the Savings Spread amounts (ignoring any Profit Distribution Reduction Amount) payable in respect of each Distribution Period occurring during such Spread Calculation Period;

**“SLLP Account”** means the account of that name of the Savings-linked Limited Partners established and maintained by or on behalf of the General Partner which is operated by (or on behalf of) the General Partner as described below for the purpose of determining distributions to be made out of the profits and assets of the Limited Partnership to the Savings-linked Limited Partner;

**“SLLP Account Closing Balance”** means, in respect of an Accounting Period, the SLLP Account Opening Balance in respect of such Accounting Period plus all credits thereto and less debits therefrom required to be made in accordance with this Part C on the Distribution Payment Date first following the Annual Determination Date first following the end of such Accounting Period;

**“SLLP Account Opening Balance”** means, in respect of the Accounting Period commencing on 30 June 2007, zero and, thereafter, the SLLP Account Closing Balance for the immediately preceding Accounting Period;

**“SLLP Capital Contribution Account”** means the account of the Savings-linked Limited Partner to which the initial Savings-linked Limited Partnership Capital Contribution is to be credited;

**“SLLPI Loan Reduction Profit Amount”** means an amount paid pursuant to paragraph 13.3(b) or 22.3(b) below;

**“SLLPI Pre-Write-down Balance”** has the meaning given to it in paragraph 7.3 (in respect of the Pre-Amortisation Period) and paragraph 16.3 (in respect of the Amortisation Period);

**“SLLPI Write-up Amount”** means:

- (a) in respect of an Annual Determination Date in respect of which the General Partner has not made the Savings Surplus Election, zero;
- (b) where the General Partner makes the Savings Surplus Election, the amount determined as at the Annual Determination Date as the lower of:
  - (i) the Deficit Account Pre-Write-down Balance determined for the Accounting Period ending immediately prior to such Annual Determination Date; and
  - (ii) the Initial Savings Cashflow Tracking Account Balance in respect of such Annual Determination Date;

provided that if the Savings Surplus Election is deemed made due to (x) the occurrence of a Bank of Ireland Insolvency Event, the Savings Cashflow Tracking Account shall be deemed, for the purposes of all calculations and determinations in respect of such deemed election, to have a balance equal to the lower of (I) the Annual Recourse Savings Cashflow Amount which has arisen in Accounting Periods ending after such Bank of Ireland Insolvency Event and (II) the then balance of the Savings Cashflow Tracking Account or (y) a Dividend Stopper Non-Compliance Event, the extent to which amounts may be debited from the Savings Cashflow Tracking Account in respect of a deemed Savings Surplus Election shall not exceed the aggregate amount paid by way of dividend or otherwise distributed or the value of the shares redeemed, repurchased or otherwise acquired in breach of the Dividend Stopper;

**“Spread”** means, in respect of a Distribution Payment Date, the amount calculated as the sum of (a) the product of (i) the EURIBOR Principal Balance at the beginning of the Distribution Period ending on such Distribution Payment Date, (ii) the Weighted Average Spread Rate in respect of such Distribution Period and (iii) the Day Count Fraction in respect of such Distribution Period and (b) the LP Funded Expense Amount in respect of such Distribution Payment Date;

**“Spread Calculation Period”** means, in respect of an Annual Determination Date (the **“relevant Annual Determination Date”**), each Distribution Period from (and including) the Distribution Period first following the immediately preceding Annual Determination Date (or, in the case of the first Annual Determination Date, commencing on the Closing Date) and ending on (but excluding) the Distribution Payment Date first following the relevant Annual Determination Date;

**“Spread Rate”** means, in respect of a Distribution Payment Date, the Spread expressed as a rate per cent. *per annum* of the outstanding principal amount of the Notes;

**“Step Four Insurance Funded Partial Amortisation Amount”** means, if the Dynamic Defined Block Tests are satisfied in respect of an Annual Determination Date:

- (i) where the Stressed VIF equals or exceeds the Projected Balance Sheet Insurance VIF, zero; and
- (ii) where the Stressed VIF is less than Projected Balance Sheet Insurance VIF, the lesser of (a) the Annual Recourse Insurance Cashflow Amount minus the Insurance Funded Overpaid Spread Account Balance minus the Step Two Insurance Funded Partial Amortisation Amount and (b) the Projected Balance Sheet Insurance VIF as at the most recent Accounting Date minus the Stressed VIF as at such Accounting Date (after addition of any policies to be included in the Dynamic Defined Block in accordance with the procedure for adding Additional Policies as described under *“Inclusion of Additional Policies in the Dynamic Defined Block”*);

**“Step Four Savings Funded Partial Amortisation Amount”** means, if the Dynamic Defined Block Tests are satisfied in respect of an Annual Determination Date:

- (i) where the Stressed VIF equals or exceeds the Projected Balance Sheet Insurance VIF or where a Savings Surplus Election is not made or deemed to be made, zero; and
- (ii) where the Stressed VIF is less than Projected Balance Sheet Insurance VIF and a Savings Surplus Election is made or deemed to be made, the lesser of (a) the Initial Savings Cashflow Tracking Account Balance minus the Savings Funded Insurance Overpaid Spread minus the Step Two Savings Funded Partial Amortisation Amount and (b) the Projected Balance Sheet Insurance VIF as at the most recent Accounting Date minus the Stressed VIF as at such Accounting Date (after addition of any policies to be included in the Dynamic Defined Block in accordance with the procedures for adding Additional Policies as described under *“Inclusion of Additional Policies in the Dynamic Defined Block”*) minus the Step Four Insurance Funded Partial Amortisation Amount;

**“Step Two Insurance Funded Partial Amortisation Amount”** means if the Dynamic Defined Block Tests are satisfied in respect of an Annual Determination Date:

- (i) where the Projected Balance Sheet Insurance VIF equals or exceeds the IL Loan Account Opening Balance in respect of the most recently ended Accounting Period, zero; and
- (ii) where the Projected Balance Sheet Insurance VIF is less than the IL Loan Account Opening Balance in respect of the most recently ended Accounting Period, the lesser of (a) the Annual Recourse Insurance Cashflow Amount minus the Insurance Funded Overpaid Spread Account Balance and (b) the IL Loan Account Opening Balance as at the most recent Accounting Date minus the Projected Balance Sheet Insurance VIF as at such Accounting Date (after addition of any policies to be included in the Dynamic Defined Block, in accordance with the procedures for adding Additional Policies as described under *“Inclusion of Additional Policies in the Dynamic Defined Block”*);

**“Step Two Savings Funded Partial Amortisation Amount”** means, if the Dynamic Defined Block Tests are satisfied in respect of an Annual Determination Date:

- (i) where the Projected Balance Sheet Insurance VIF equals or exceeds the IL Loan Account Opening Balance in respect of the most recently ended Accounting Period, or where a Savings Surplus Election is not made or deemed to be made, zero; and
- (ii) where the Projected Balance Sheet Insurance VIF is less than the IL Loan Account Opening Balance in respect of the most recently ended Accounting Period and a Savings Surplus Election is made or deemed to be made, the lesser of (a) the Initial Savings Cashflow Tracking Account Balance minus the Savings Funded Insurance Overpaid Spread, and (b) the IL Loan Account Opening Balance as at the most recent Accounting Date minus the Projected Balance Sheet Insurance VIF as at such Accounting Date (after addition of any policies to be included in the Dynamic Defined Block in accordance with the procedures for adding Additional Policies as described under *“Inclusion of Additional Policies in the Dynamic Defined Block”*) minus the Step Two Insurance Funded Partial Amortisation Amount; and

**“Weighted Average Spread Rate”** means, in respect of a Distribution Period the average of the Relevant Margin of the Class A-1 Notes and the Relevant Margin of the Class A-2 Notes weighted by reference to the outstanding principal amount of such Notes and any unpaid interest thereon on the first day of the Interest Period which corresponds to the relevant Distribution Period.

## **2. ACCOUNTS**

2.1 The General Partner (or a person acting on its behalf) shall open the following accounts in the records of the Partnership:

- (a) the IL Loan Account;
- (b) the Deficit Account;
- (c) the GP Capital Contribution Account;
- (d) the GP Account;
- (e) the SLLP Account;
- (f) the SLLP Capital Contribution Account;
- (g) the Savings Cashflow Tracking Account;
- (h) the EURIBOR Principal Tracking Account;
- (i) the Insurance Overpaid Spread Account;
- (j) the Savings Overpaid Spread Account;
- (k) the Missed Spread Account;
- (l) the Missed SLLPI EURIBOR Account; and
- (m) the Negative Insurance Surplus Tracking Account.

2.2 The General Partner shall operate the accounts as described in this Part C and make the determinations and calculations as set out in this Part C.

2.3 In making the determinations and calculations in this Part C, the General Partner shall be entitled to rely on the information it is given by the VIF Calculation Agent in relation to the calculations and determinations required to be made by it under the Limited Partnership Agreement and the Calculation Agreement.

2.4 Debits and credits to each of the Partnership Accounts shall be made in the order described in the relevant paragraph below.

## **3. DETERMINATION OF WHETHER AN AMORTISATION EVENT HAS OCCURRED**

3.1 The General Partner (or a person acting on its behalf) shall, on each Annual Determination Date falling on or before the Annual Determination Date in July 2012 first determine whether, if it were to make the debits and credits in paragraphs 5 to 13 (inclusive), paragraphs 23 to 25 (inclusive) and paragraph 27 below either a Full Amortisation Event would have occurred or there would be a balance on the Deficit Account or the Insurance Overpaid Spread Account had such debits and credits been made.

3.2 If the General Partner determines that either such event would have occurred, an Amortisation Event shall be deemed to have occurred.

3.3 If an Amortisation Event is deemed to have occurred under paragraph 3.2 or an Amortisation Event has otherwise occurred, the actual debits, credits and payments shall thereafter be made as described in paragraphs 14 to 31 (inclusive) below.

#### **4. ACCOUNT BALANCES ON THE CLOSING DATE**

4.1 On the Closing Date the amount of the Insurance-linked Loan shall be credited to the IL Loan Account (so that the balance of the IL Loan Account on the Closing Date, after such crediting, shall be €400,000,000).

4.2 On the Closing Date the amount of the Savings-linked Limited Partner Capital Contribution shall be credited to the SLLP Capital Contribution Account.

4.3 On the Closing Date the General Partner Capital Contribution shall be credited to the GP Capital Contribution Account. On each subsequent date on which the General Partner makes a Capital Contribution, such amount shall be credited to the GP Capital Account.

4.4 On the Closing Date the amount of the dividend received prior to the Closing Date in respect of the class "A" share in BoI Insurance Limited shall be credited to the GP Account (so that the balance of the GP Account on the Closing Date after such crediting shall be €40,000,000).

4.5 The opening balance of the SLLP Account, the Deficit Account, the Savings Cashflow Tracking Account, the Insurance Overpaid Spread Account, the Savings Overpaid Spread Account, the Missed Spread Account, the Missed SLLPI EURIBOR Account and the Negative Insurance Surplus Tracking Account shall be zero.

4.6 The opening balance of the EURIBOR Principal Tracking Account shall be equal to the opening balance on the Closing Date of the IL Loan Account following the credit thereto made in paragraph 4.1.

#### **5. OPERATION OF THE IL LOAN ACCOUNT IN THE PRE-AMORTISATION PERIOD**

5.1 The debits and credits to the IL Loan Account shall be made in accordance with this paragraph 5 in the Pre-Amortisation Period in the order in which it is set out.

5.2 On each Annual Determination Date falling in the Pre-Amortisation Period:

- (a) the sum of the Insurance Spread Requirement in respect of the Spread Calculation Period ending nearest to such Annual Determination Date shall be credited to such account;
- (b) the Insurance Funded Overpaid Spread in respect of that Spread Calculation Period shall be debited from such account;
- (c) following the application of the procedures to determine whether Additional Policies are to be added, the IL Impairment Amount determined in respect of such Annual Determination Date shall be debited from such account;
- (d) the Step Two Insurance Funded Partial Amortisation Amount shall be debited from the IL Loan Account;
- (e) the Step Four Insurance Funded Partial Amortisation Amount shall be debited from the IL Loan Account; and
- (f) the Step Four Savings Funded Partial Amortisation Amount shall be debited from the IL Loan Account.

5.3 The IL Loan Account Closing Year Balance in respect of such Annual Determination Date shall be the balance standing to the credit of the IL Loan Account after all debits and credits made pursuant to this paragraph 5 have been made.

**6. OPERATION OF THE DEFICIT ACCOUNT IN THE PRE-AMORTISATION PERIOD**

6.1 On each Annual Determination Date falling in the Pre-Amortisation Period the Deficit Account shall be credited with the sum of (i) the IL Impairment Amount in respect of such Annual Determination Date and (ii) the Step Four Savings Funded Partial Amortisation Amount.

The balance standing to the credit of the Deficit Account in the Pre-Amortisation Period following the credit made pursuant to this paragraph 6.1 is the “**Deficit Account Pre-Write-down Balance**”.

6.2 On each Annual Determination Date in the Pre-Amortisation Period in respect of which the General Partner has made the Savings Surplus Election the SLLPI Write-up Amount shall be debited from the Deficit Account.

6.3 The Deficit Account Closing Year Balance in respect of such Annual Determination Date shall be the balance standing to the credit of the Deficit Account after all debits and credits made pursuant to this paragraph 6 have been made.

**7. OPERATION OF THE SLLP ACCOUNT IN THE PRE-AMORTISATION PERIOD**

7.1 The debits and credits to the SLLP Account shall be made in accordance with this paragraph 7 in the Pre-Amortisation Period in the order in which it is set out.

7.2 On each Annual Determination Date falling in the Pre-Amortisation Period:

- (a) the General Partner shall determine whether to make the Savings Surplus Election (and therefore whether the SLLP Account should be credited with the SLLPI Write-up Amount);
- (b) if the General Partner makes the Savings Surplus Election (and thereby determines that it will be so credited), the SLLP Account shall be credited with the SLLPI Write-up Amount; if it does not, no amount shall be credited to the SLLP Account on such Annual Determination Date.

7.3 The balance of the SLLP Account shall be determined after the application of paragraph 7.2 on the relevant Annual Determination Date and such amount, with respect to such Annual Determination Date, is the “**SLLPI Pre-Write-down Balance**”.

7.4 On the Annual Determination Date the SLLP Account shall be debited with an amount equal to the SLLPI Pre-Write-down Balance.

7.5 The SLLP Account Closing Year Balance in respect of such Annual Determination Date shall be the balance standing to the credit of the SLLP Account after all debits and credits made pursuant to this paragraph 7 have been made.

**8. OPERATION OF THE GP ACCOUNT IN THE PRE-AMORTISATION PERIOD**

8.1 The debits and credits to the GP Account shall be made in accordance with this paragraph 8 in the Pre-Amortisation Period in the order in which it is set out.

8.2 On each Annual Determination Date falling in the Pre-Amortisation Period:

- (a) an amount equal to the IL Impairment Amount in respect of such Annual Determination Date shall be credited to the GP Account;



- (b) an amount equal to the Step Four Savings Funded Partial Amortisation Amount in respect of such Annual Determination Date shall be credited to the GP Account; and
- (c) an amount equal to the SLLPI Pre-Write-down Balance shall be debited from the GP Account.

8.3 The GP Account Closing Balance in respect of each Annual Determination Date in the Pre-Amortisation Period shall be the balance standing to the credit of the GP Account after all debits and credits made pursuant to this paragraph 8 have been made.

#### **9. OPERATION OF THE INSURANCE OVERPAID SPREAD ACCOUNT IN THE PRE-AMORTISATION PERIOD**

9.1 On each Annual Determination Date in the Pre-Amortisation Period the Insurance Overpaid Spread Account shall be credited with the sum of the Insurance Spread Requirement in respect of the Spread Calculation Period ending nearest to such Annual Determination Date (the balance of the Insurance Overpaid Spread Account after such amount is credited is the “**Initial Insurance Overpaid Spread Account Balance**”).

9.2 On each Annual Determination Date in the Pre-Amortisation Period the General Partner shall debit from the Insurance Overpaid Spread Account an amount equal to the Insurance Funded Overpaid Spread determined in respect of such Annual Determination Date (the balance of the Insurance Overpaid Spread Account after such amount is credited is the “**Intermediate Insurance Overpaid Spread Account Balance**”).

9.3 On each Annual Determination Date in the Pre-Amortisation Period the General Partner shall debit from the Insurance Overpaid Spread Account an amount equal to the Savings Funded Insurance Overpaid Spread determined in respect of such Annual Determination Date.

9.4 On each of the Distribution Payment Dates falling after the Annual Determination Date and before the next Annual Determination Date, the General Partner shall determine the amount by which the Insurance Spread payable on such Distribution Payment Date is greater than it would be if it were reduced (to a minimum of zero) by the credit balance on the Insurance Overpaid Spread Account (each such reduction an “**Insurance Interest Reduction Amount**”).

9.5 The Insurance Interest Reduction Amount shall be debited from the Insurance Overpaid Spread Account on each Distribution Payment Date on which it causes a reduction in the amount which would otherwise have been paid on such Distribution Payment Date.

#### **10. OPERATION OF THE SAVINGS OVERPAID SPREAD ACCOUNT IN THE PRE-AMORTISATION PERIOD**

No debits or credits shall be made to the Savings Overpaid Spread Account in the Pre-Amortisation Period.

#### **11. OPERATION OF MISSED SPREAD ACCOUNT IN THE PRE-AMORTISATION PERIOD**

No debits or credits shall be made to the Missed Spread Account in the Pre-Amortisation Period.

#### **12. OPERATION OF THE SAVINGS CASHFLOW TRACKING ACCOUNT IN THE PRE-AMORTISATION PERIOD**

12.1 On each Annual Determination Date in the Pre-Amortisation Period the Savings Cashflow Tracking Account will be credited with an amount equal to the Annual Recourse Savings Cashflow Amount (if a surplus, and so positive) or debited with an amount equal to the Annual Recourse Savings Cashflow Amount (if a deficit, and so negative) determined in respect of the Accounting

Period ending immediately prior to such Annual Determination Date (the balance after such amount is credited, the “**Initial Savings Cashflow Tracking Account Balance**”).

12.2 On each Annual Determination Date in the Pre-Amortisation Period in respect of which the General Partner makes the Savings Surplus Election, the Savings Cashflow Tracking Account will be debited with an amount equal to the SLLPI Pre-Write-down Balance in respect of such Annual Determination Date.

12.3 In the Pre-Amortisation Period any balance whether positive or negative remaining on the Savings Cashflow Tracking Account on an Annual Determination Date shall be debited from it (or, if negative, credited to it) and such account balance shall be reset to zero.

### **13. INTEREST AMOUNTS, IL LOAN REPAYMENT AMOUNTS AND PARTNERSHIP DISTRIBUTIONS IN THE PRE-AMORTISATION PERIOD**

13.1 On each Annual Determination Date in the Pre-Amortisation Period:

- (a)
  - (i) the General Partner shall determine whether the Positive Annual Recourse Insurance Cashflow Amount is greater than the amount of the Initial Insurance Overpaid Spread Account Balance. If it is, the “**Insurance Funded Overpaid Spread**” equals the Initial Insurance Overpaid Spread Account Balance; if it is not the “**Insurance Funded Overpaid Spread**” equals the Positive Annual Recourse Insurance Cashflow Amount;
  - (ii) if the Positive Annual Recourse Insurance Cashflow Amount exceeds the aggregate of the Initial Insurance Overpaid Spread Account Balance, the excess is the “**Available Insurance Cashflow Principal**” in respect of the Annual Determination Date; otherwise the “**Available Insurance Cashflow Principal**” in respect of the Annual Determination Date is zero;
- (b) if a Savings Surplus Election is made in respect of such Annual Determination Date:
  - (i) the General Partner shall determine whether the Savings Cashflow Tracking Account Balance as it would be if the SLLPI Pre-write-down Balance were zero exceeds the “Intermediate Insurance Overpaid Spread Account Balance; if it does the “**Savings Funded Insurance Overpaid Spread**” equals the Intermediate Insurance Overpaid Spread Account Balance; if it does not, the “**Savings Funded Insurance Overpaid Spread**”, equals the Savings Cashflow Tracking Account Balance as it would be if the SLLPI Pre-write-down Balance were zero;
  - (ii) if the Savings Cashflow Tracking Account Balance as it would be if the SLLPI Pre-write-down Balance were zero exceeds the Intermediate Insurance Overpaid Spread Account Balance, the excess is the “**Available Savings Cashflow For Principal Balance**” in respect of the Annual Determination Date; otherwise the “**Available Savings Cashflow For Principal Balance**” in respect of the Annual Determination Date is zero; and
- (c) if a Savings Surplus Election is not made in respect of an Annual Determination Date, the “**Savings Funded Insurance Overpaid Spread**” and the “**Available Savings Cashflow For Principal Balance**” in respect of the Annual Determination Date shall both be zero.

13.2 On each Distribution Payment Date falling in the Pre-Amortisation Period, the Partnership shall pay interest on the IL Loan calculated as to the sum of:

(i) the product of (I) EURIBOR, (II) the IL Loan Account Balance and (III) the Day Count Fraction, in each case at the beginning of the Distribution Period ending on such Distribution Payment Date; and

(ii) the Insurance Spread determined in respect of such Distribution Payment Date,

less the Insurance Interest Reduction Amount (or such part as does not exceed the amounts in (ii)) (in respect of such Distribution Payment Date, the “**IL Loan Interest Amount**”).

13.3 On each Distribution Payment Date first following each Annual Determination Date falling in the Pre-Amortisation Period, the Partnership shall:

- (a) repay to the Lender as a partial repayment of the Insurance-linked Loan an amount equal to the aggregate of the Step Two Insurance Funded Partial Amortisation Amount and the Step Four Insurance Funded Partial Amortisation Amount; and
- (b) if the Savings Surplus Election has been made in respect of such Annual Determination Date, pay to the holder of the SLLPI an aggregate amount as a distribution in respect of the SLLPI of the profit to the partnership of a reduction in its liability on the IL Loan an amount equal to the aggregate of the Step Two Savings Funded Partial Amortisation Amount and the Step Four Savings Funded Partial Amortisation Amount (the “**SLLPI Loan Reduction Profit Amount**”).

#### 14. OPERATION OF THE IL LOAN ACCOUNT IN THE AMORTISATION PERIOD

14.1 The debits and credits to the IL Loan Account shall be made in accordance with this paragraph 14 in the Amortisation Period in the order in which it is set out.

14.2 On each Annual Determination Date falling in the Amortisation Period:

- (a) the sum of the Insurance Spread Requirement in respect of the Spread Calculation Period ending nearest to such Annual Determination Date shall be credited to such account;
- (b) the Positive Annual Recourse Insurance Cashflow Amount in respect of the Accounting Period last ending immediately prior to such Annual Determination Date (after reducing it pursuant to paragraph 25 (*Negative Insurance Surplus Tracking Account*)) shall be debited from such account; and
- (c) the IL Impairment Amount determined in respect of such Annual Determination Date shall be debited from such account.

14.3 The balance of the IL Loan Account shall be determined after the application of paragraph 14.2 on the relevant Annual Determination Date and such amount, with respect to such Annual Determination Date is the “**IL Loan Pre-Write-up Balance**”.

14.4 Following determination thereof, the IL Write-up Amount shall be credited to the IL Loan Account.

14.5 The IL Loan Account Closing Year Balance in respect of such Annual Determination Date shall be the balance standing to the credit of the IL Loan Account after all debits and credits made pursuant to this paragraph 14 have been made.

#### 15. OPERATION OF THE DEFICIT ACCOUNT IN THE AMORTISATION PERIOD

15.1 On each Annual Determination Date falling in the Amortisation Period the Deficit Account shall be credited with:

- (a) the IL Impairment Amount in respect of such Annual Determination Date; and
- (b) the sum of the Savings Spread Requirement in respect of the Spread Calculation Period ending nearest to such Annual Determination Date.

On each Annual Determination Date falling in the Amortisation Period the Deficit Account shall be debited with the IL Write-Up Amount.

The balance standing to the credit of the Deficit Account in the Amortisation Period following the credits and debits made pursuant to this clause 15.1 is the **"Deficit Account Pre-Write-down Balance"**.

15.2 On the Annual Determination Date in the Amortisation Period in respect of which the General Partner makes a Savings Surplus Election the SLLPI Write-up Amount shall be debited from the Deficit Account.

15.3 The Deficit Account Closing Year Balance in respect of such Annual Determination Date shall be the balance standing to the credit of the Deficit Account after all debits and credits made pursuant to this paragraph 15 have been made.

#### **16. OPERATION OF THE SLLP ACCOUNT IN THE AMORTISATION PERIOD**

16.1 The debits and credits to the SLLP Account shall be made in accordance with this paragraph 16 in the Amortisation Period in the order in which it is set out.

16.2 On each Annual Determination Date falling in the Amortisation Period:

- (a) the General Partner shall determine whether to make the Savings Surplus Election (and therefore whether the SLLP Account should be credited with the SLLPI Write-up Amount);
- (b) if the General Partner makes the Savings Surplus Election (and thereby determines that it will be so credited), the SLLP Account shall be credited with the SLLPI Write-up Amount.

16.3 The balance of the SLLP Account shall be determined after the application of paragraph 16.2 on the relevant Annual Determination Date and such amount, with respect to such Annual Determination Date is the **"SLLPI Pre-Write-down Balance"**.

16.4 On each Annual Determination Date in the Amortisation Period in respect of which the General Partner makes or is deemed to make a Savings Surplus Election, the SLLP Account shall be debited with an amount equal to the SLLPI Pre-Write-down Balance in respect of such Annual Determination Date.

16.5 The SLLP Account Closing Year Balance in respect of such Annual Determination Date shall be the balance standing to the credit of the SLLP Account after all debits and credits made pursuant to this paragraph 16 have been made.

#### **17. OPERATION OF THE GP ACCOUNT IN THE AMORTISATION PERIOD**

17.1 The debits and credits to the GP Account shall be made in accordance with this paragraph 17 in the Amortisation Period in the order in which it is set out.

17.2 On each Annual Determination Date falling in the Amortisation Period:

- (a) an amount equal to the IL Impairment Amount in respect of such Annual Determination Date shall be credited to the GP Account;

- (b) the sum of the Savings Spread Requirement in respect of the Spread Calculation Period ending nearest to such Annual Determination Date shall be credited to the GP Account;
- (c) an amount equal to the IL Write-up Amount in respect of such Annual Determination Date shall be debited from the GP Account; and
- (e) an amount equal to the SLLPI Pre-Write-down Balance shall be debited from the GP Account.

17.3 The GP Account Closing Year Balance in respect of such Annual Determination Date shall be the balance standing to the credit of the GP Account after all debits and credits made pursuant to this paragraph 17 have been made.

17.4 Any amounts standing to the credit of the GP Account shall be retained within the partnership until such time as the IL Loan has ceased to be outstanding and there is no balance on the Deficit Account, Missed Spread Account or Missed SLLPI EURIBOR Account, following which the General Partner may apply the assets of the Limited Partnership in paying to itself the amounts standing to the credit of such account.

#### **18. OPERATION OF THE INSURANCE OVERPAID SPREAD ACCOUNT IN THE AMORTISATION PERIOD**

18.1 On each Annual Determination Date in the Amortisation Period the Insurance Overpaid Spread Account shall be credited with the amount of Insurance Spread Requirement in respect of the Spread Calculation Period ending nearest to such Annual Determination Date (the balance of the Insurance Overpaid Spread Account after such amount is credited, the "**Initial Insurance Overpaid Spread Account Balance**").

18.2 On each Annual Determination Date in the Amortisation Period the General Partner shall debit from the Insurance Overpaid Spread Account an amount equal to the Insurance Funded Overpaid Spread determined in respect of such Annual Determination Date (the balance of the Insurance Overpaid Spread Account after such amount is credited, the "**Intermediate Insurance Overpaid Spread Account Balance**").

18.3 On each Annual Determination Date in the Amortisation Period the General Partner shall debit from the Insurance Overpaid Spread Account an amount equal to the Savings Funded Insurance Overpaid Spread determined in respect of such Annual Determination Date.

18.4 On each of the Distribution Payment Dates falling after the Annual Determination Date and before the next Annual Determination Date, the General Partner shall determine the amount by which the aggregate of the Insurance Spread and any Missed Spread Insurance Funded Amount payable on such Distribution Payment Date is greater than it would be if it were reduced (to a minimum of zero) by the credit balance on the Insurance Overpaid Spread Account (each such reduction an "**Insurance Interest Reduction Amount**").

18.5 The Insurance Interest Reduction Amount shall be debited from the Insurance Overpaid Spread Account on each Distribution Payment Date on which it causes a reduction in the amount which would otherwise have been paid on such Distribution Payment Date.

#### **19. OPERATION OF THE SAVINGS OVERPAID SPREAD ACCOUNT IN THE AMORTISATION PERIOD**

19.1 On each Annual Determination Date in the Amortisation Period, if a Savings Surplus Election has been made or deemed to be made with respect to the previous Annual Determination Date, the Savings Overpaid Spread Account shall be credited with the amount of Savings Spread Requirement in respect of the Spread Calculation Period ending nearest to such Annual Determination Date (the

balance of the Savings Overpaid Spread Account after such amount is credited, the “**Initial Savings Overpaid Spread Account Balance**”).

19.2 On each Annual Determination Date in the Amortisation Period the General Partner shall debit from the Savings Overpaid Spread Account an amount equal to the Savings Funded Overpaid Spread determined in respect of such Annual Determination Date.

19.3 On each of the Distribution Payment Dates falling after the Annual Determination Date and before the next Annual Determination Date, the General Partner shall determine the amount by which the aggregate of the Savings Spread and any Missed Spread Savings Funded Amount payable on such Distribution Payment Date is greater than it would be if it were reduced (to a minimum of zero) by the credit balance on the Savings Overpaid Spread Account (each such reduction a “**Profit Distribution Reduction Amount**”).

19.4 The Profit Distribution Reduction Amount shall be debited from the Savings Overpaid Spread Account on each Distribution Payment Date on which it causes a reduction in the amount which would otherwise be paid on such Distribution Payment Date.

19.5 Where the General Partner does not make, and is not deemed to make, a Savings Surplus Election on an Annual Determination Date, and consequently no payments of Savings Spread are to be made on the Distribution Payment Dates falling in the relevant Spread Calculation Period commencing immediately after such Annual Determination Date, a Profit Distribution Reduction Amount shall be deemed to apply on each such Distribution Payment Date in the amount equal to the lesser of (a) the amount which would have been the Savings Spread on such Distribution Payment Date if the Savings Surplus Election had been made or deemed to be made and (b) the credit balance on the Savings Overpaid Spread Account less any prior Profit Distribution Reduction Amount in respect of such credit balance.

## **20. OPERATION OF MISSED SPREAD ACCOUNT IN THE AMORTISATION PERIOD**

20.1 On each Distribution Payment Date in the Amortisation Period the Missed Spread Account shall be credited with an amount equal to any Insurance Interest Reduction Amount which reduces any payment to be made on such Distribution Payment Date pursuant to paragraph 22.2(a).

20.2 On each Distribution Payment Date in the Amortisation Period the Missed Spread Account shall be credited with an amount equal to the Profit Distribution Reduction Amount which reduces any payment to be made on such Distribution Payment Date pursuant to paragraph 22.2(b).

20.3 The Missed Spread Account shall be debited with the amount to be paid pursuant to 22.2(a)(iii) below when each such amount is paid.

20.4 The Missed Spread Account shall be debited with the amount to be paid pursuant to paragraph 22.2(b)(iii) below when each such amount is paid.

20.5 On each Distribution Payment Date in the Amortisation Period, if a Savings Surplus Election has not been made or deemed to have been made on the most recent Annual Determination Date, the Missed Spread Account shall be credited with an amount equal to the Savings Spread in respect of such Distribution Payment Date.

## **21. OPERATION OF THE SAVINGS CASHFLOW TRACKING ACCOUNT IN THE AMORTISATION PERIOD**

21.1 On each Annual Determination Date in the Amortisation Period the Savings Cashflow Tracking Account will be credited (if a surplus, and so positive) or debited (if a deficit and so negative) with an amount equal to the Annual Recourse Savings Cashflow Amount determined in

respect of the Accounting Period ending immediately prior to such Annual Determination Date (the balance of the Savings Cashflow Tracking Account after such amount is credited, the “**Initial Savings Cashflow Tracking Account Balance**”).

21.2 On each Annual Determination Date in the Amortisation Period, in respect of which the General Partner makes or is deemed to make the Savings Surplus Election, the Savings Cashflow Tracking Account will be debited with an amount equal to the SLLPI Pre-Write-down Balance in respect of such Annual Determination Date.

21.3 In the Amortisation Period, the balance at any time of the Savings Cashflow Tracking Account is the amount standing to the credit of such account after the debits and credits made to it pursuant to this paragraph 21 have been made.

21.4 If a Bank of Ireland Insolvency Event occurs, the balance of the Savings Cashflow Tracking Account shall be debited therefrom and credited to the GP Account. This paragraph 21.4 will not apply to amounts credited to the Savings Cashflow Tracking Account following the occurrence of a Bank of Ireland Insolvency Event.

## **22. INTEREST AMOUNTS, IL LOAN REPAYMENT AMOUNTS AND PARTNERSHIP PROFIT DISTRIBUTIONS IN THE AMORTISATION PERIOD**

22.1 On each Annual Determination Date in the Amortisation Period:

- (a)
- (i) the General Partner shall determine whether the Positive Annual Recourse Insurance Cashflow Amount exceeds the amount of the Initial Insurance Overpaid Spread Account Balance. If it does, the “**Insurance Funded Overpaid Spread**” equals the Initial Insurance Overpaid Spread Account Balance; if it does not the **Insurance Funded Overpaid Spread** equals the Positive Annual Recourse Insurance Cashflow Amount;
  - (ii) if the Positive Annual Recourse Insurance Cashflow Amount exceeds the Initial Insurance Overpaid Spread Account Balance, the General Partner shall determine whether the excess is greater than that part of the Missed Spread Account Balance representing amounts credited to the Missed Spread Account pursuant to paragraph 20.1 on prior Distribution Payment Dates and not previously debited from such account (“**Unfunded Missed Insurance Spread**”) (before debiting such account pursuant to paragraph 20.5); if it is the “**Missed Spread Insurance Funded Amount**” equals the Unfunded Missed Insurance Spread; if it is not, the “**Missed Spread Insurance Funded Amount**” equals the excess of the Positive Annual Recourse Insurance Cashflow Amount over the Initial Insurance Overpaid Spread Account Balance;
  - (iii) if the Positive Annual Recourse Insurance Cashflow Amount exceeds the aggregate of the Initial Insurance Overpaid Spread Account Balance and the Unfunded Missed Insurance Spread, the excess is the “**Available Insurance Cashflow Principal**” in respect of the Annual Determination Date; otherwise the “**Available Insurance Cashflow Principal**” in respect of the Annual Determination Date is zero;
- (b) if a Savings Surplus Election is made in respect of an Annual Determination Date:
- (i) the General Partner shall determine whether the Initial Savings Cashflow Tracking Account Balance exceeds the Initial Savings Overpaid Spread Account Balance. If it does, the “**Savings Funded Overpaid Spread**” equals the Initial Savings Overpaid Spread Account Balance; if it does not the “**Savings Funded Overpaid Spread**” equals the Initial Savings Cashflow Tracking Account Balance;

- (ii) if the Initial Savings Cashflow Tracking Account Balance exceeds the Initial Savings Overpaid Spread Account Balance, the General Partner shall determine whether the excess is greater than the Missed Spread Account Balance (after deducting any Missed Spread Insurance Funded Amount on such Annual Determination Date); if it is the “**Missed Spread Savings Funded Amount**” equals the Missed Spread Account Balance (after deducting any Missed Spread Insurance Funded Amount on such Annual Determination Date); if it is not, the “**Missed Spread Savings Funded Amount**” equals the excess of the Initial Savings Cashflow Tracking Account Balance over the Initial Savings Overpaid Spread Account Balance;
- (iii) if the Initial Savings Cashflow Tracking Account Balance exceeds the aggregate of the Savings Funded Overpaid Spread and the Missed Spread Savings Funded Amount, the General Partner shall determine whether the excess is greater than the Intermediate Insurance Overpaid Spread Account Balance; if it is the “**Savings Funded Insurance Overpaid Spread**” equals the Intermediate Insurance Overpaid Spread Account Balance; if it is not, the “**Savings Funded Insurance Overpaid Spread**” equals the excess of the Initial Savings Cashflow Tracking Account Balance over the aggregate of the Initial Savings Overpaid Spread Account Balance and the Missed Spread Savings Funded Amount;
- (iv) if the Initial Savings Cashflow Tracking Account Balance exceeds the aggregate of the Savings Funded Overpaid Spread, the Missed Spread Savings Funded Amount and the Savings Funded Insurance Overpaid Spread, the excess is the “**Available Savings Cashflow For Principal Balance**” in respect of the Annual Determination Date; otherwise the “**Available Savings Cashflow For Principal Balance**” in respect of the Annual Determination Date is zero; and
- (c) if a Savings Surplus Election is not made in respect of an Annual Determination Date, the “**Savings Funded Overpaid Spread**”, the “**Missed Spread Savings Funded Amount**”, the “**Savings Funded Insurance Overpaid Spread**” and the “**Available Savings Cashflow for Principal Balance**” in respect of the Annual Determination Date shall be zero.

22.2 On each Distribution Payment Date falling in the Amortisation Period, the Partnership shall pay:

- (a) interest on the IL Loan calculated as to the sum of:
  - (i) Insurance EURIBOR;
  - (ii) the Insurance Spread determined in respect of such Distribution Payment Date; and
  - (iii) if such day is the first Distribution Payment Date following the Annual Determination Date, the Missed Spread Insurance Funded Amount determined pursuant to paragraph 22.1(a)(ii),

less the Insurance Interest Reduction Amount (or such part as does not exceed the aggregate of the amounts in (ii) and (iii)) (in respect of such Distribution Payment Date, the “**IL Loan Interest Amount**”); and

- (b) if the Savings Surplus Election has been made in respect of the immediately preceding Annual Determination Date (or is deemed made), as a distribution from the profits of the Partnership (and, to the extent that such profits are insufficient, out of the GP Account, which shall be debited accordingly) to the holder of the SLLPI an aggregate amount equal to the sum of:
  - (i) Savings EURIBOR;



- (ii) the Savings Spread determined in respect of such Distribution Payment Date;
- (iii) if such day is the first Distribution Payment Date following the Annual Determination Date, the Missed Spread Savings Funded Amount determined pursuant to paragraph 22.1(b)(ii); and
- (iv) if such day is the first Distribution Payment Date following the Annual Determination Date, the Missed SLLPI EURIBOR Account Balance,

less the Profit Distribution Reduction Amount (or such part as does not exceed the aggregate of the amounts in (ii) and (iii)) (in respect of such Distribution Payment Date, the “**SLLPI Profit Distribution Amount**”).

22.3 On each Distribution Payment Date first following each Annual Determination Date falling in the Amortisation Period, the Partnership shall:

- (a) repay to the Lender as a partial repayment of the Insurance-linked Loan an amount equal to the Available Insurance Cashflow Principal determined on such Annual Determination Date; and
- (b) if the Savings Surplus Election has been made in respect of such Annual Determination Date (or is deemed made), pay to the holders of the SLLPI an aggregate amount as a distribution in respect of the SLLPI of the profit to the partnership arising pursuant to a reduction in its liability on the IL Loan an amount equal to the greater of (a) zero and (b) the lower of (i) the Available Savings Cashflow For Principal Balance and (ii) the SLLPI Write-up Amount minus the aggregate of the Savings Funded Overpaid Spread, the Missed Spread Savings Funded Amount and the Savings Funded Insurance Overpaid Spread (the “**SLLPI Loan Reduction Profit Amount**”).

## 23. EURIBOR PRINCIPAL TRACKING ACCOUNT

23.1 On each Annual Determination Date whether in the Pre-Amortisation or Amortisation Period, the General Partner shall determine the EURIBOR Principal Balance as follows:

- (a) on the Closing Date the EURIBOR Principal Tracking Account shall be credited with an amount equal to the IL Loan advanced on the Closing Date;
- (b) on the Distribution Date first following each Annual Determination Date the EURIBOR Principal Tracking Account shall be debited with the amounts paid pursuant to paragraph 13.3 or 22.3.

23.2 The EURIBOR Principal Balance in respect of any Distribution Period shall be the balance of the EURIBOR Principal Tracking Account on the first day of such Distribution Period after making all the debits and credits referred to in this paragraph 23 plus the Missed Spread Account Balance.

## 24. OPERATION OF THE MISSED SLLPI EURIBOR ACCOUNT IN THE PRE-AMORTISATION PERIOD AND THE AMORTISATION PERIOD

24.1 If the General Partner does not make a Savings Surplus Election on an Annual Determination Date, the EURIBOR accruing in respect of the Deficit Account Balance will not be payable on the four Distribution Payment Dates immediately following such Annual Determination Date, unless the General Partner gives notice that such election shall be deemed to have been made, as described below. The amounts which would have been payable (calculated as described in paragraph 22 above) shall be credited to the Missed SLLPI EURIBOR Account.

24.2 Amounts standing to the credit of the Missed SLLPI EURIBOR Account at the beginning of a Distribution Period shall be increased on the Distribution Payment Date falling at the end of such Distribution Period by an amount equal to the product of (i) the amounts standing to the credit of the Missed SLLPI EURIBOR Account at the beginning of such Distribution Period, (ii) EURIBOR plus the Weighted Average Spread Rate in respect of such Distribution Period and (iii) the Day Count Fraction in respect of such Distribution Period.

24.3 If the General Partner makes a Savings Surplus Election on the next Annual Determination Date or gives at least 10 Business Days' notice prior to any Distribution Payment Date that it will be deemed to have made such an election on the preceding Annual Determination Date, the balance of the Missed SLLPI EURIBOR Account shall be paid pursuant to paragraph 22.2(b)(iv) on the next Distribution Payment Date.

## 25. NEGATIVE INSURANCE SURPLUS TRACKING ACCOUNT

25.1 If the Annual Recourse Insurance Cashflow Amount is negative, the absolute value of such amount shall be credited to the Negative Insurance Surplus Tracking Account.

25.2 If the Negative Insurance Surplus Tracking Account had a balance on the previous Annual Determination Date (the "First ADD"), such amount is taken into account in reducing the amount calculated as the Annual Recourse Insurance Cashflow Amount on the Annual Determination Date following the First ADD (the "Second ADD").

25.3 The Calculation Agent shall track the deficit so that it reduces the Annual Recourse Insurance Cashflow Amount on the Second ADD (and, if necessary, on subsequent Annual Determination Dates until the balance is reduced to zero). If on the Annual Determination Date following the Second ADD there is a further deficit, the process shall be carried out again so that the net surplus or deficit is determined on each Annual Determination Date.

25.4 There shall be debited from the Negative Insurance Surplus Tracking Account any amount by which any determination of the Annual Recourse Insurance Cashflow Amount is reduced under this paragraph 25.

## 26. SAVINGS SURPLUS ELECTION

26.1 No later than each Annual Determination Date (whether or not any amounts are recorded on the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account) (or each other date treated as an Annual Determination Date for the purposes of determining whether to make a Savings Surplus Election) the General Partner shall give notice to the Limited Partners, Ambac (for so long as it is the Controlling Creditor) and the Lender whether it intends to elect to apply amounts standing to the credit of the Savings Cashflow Tracking Account to cover amounts recorded in the Deficit Account, as described in this Part C. If such an election is made it shall, subject as follows, apply with respect to all amounts to be distributed in respect of the SLLPI and not some only and shall apply with respect to EURIBOR and Spread payable on the first four Distribution Payment Dates following such Annual Determination Date or if more than four, Distribution Payment Dates falling prior to the next Annual Distribution Date.

If a Non-Sale Acceleration Event occurs, the General Partner shall determine whether to make the Savings Surplus Election in respect of the Acceleration Date relating to such Acceleration Event.

In the case of a Dividend Stopper Non-Compliance Event a Savings Surplus Election will be treated as having been made with respect to the lower of (I) the then balance on the Savings Cashflow Tracking Account and (II) the aggregate amount paid by way of dividend or otherwise distributed or the value of the shares redeemed, repurchased or otherwise acquired in breach of the Dividend Stopper (to the extent not previously taken into account).

If a Sale Acceleration Event occurs, the General Partner will be deemed to make a Savings Surplus Election in respect of the deemed Annual Determination Date arising in respect of such Sale Acceleration Event if it made a Savings Surplus Election in respect of the previous Annual Determination Date, and, if it did not make a Savings Surplus Election on or in respect of the previous Annual Determination Date, it will determine whether to make the Savings Surplus Election in respect of the Acceleration Date relating to such Acceleration Event. If the transaction continues following a Sale Acceleration Event, the first above paragraph will apply with respect to each subsequent Annual Determination Date.

26.2 Any amount standing to the credit of the Savings Surplus Tracking Account prior to the Bank of Ireland Insolvency Event shall be removed from it on the occurrence of a Bank of Ireland Insolvency Event.

## 27. NON-SALE ACCELERATION EVENTS

27.1 On the first Distribution Determination Date following any Non-Sale Acceleration Event the debits and credits described above in respect of the Amortisation Period shall be made as if such date were an Annual Determination Date but:

- (a) an amount equal to the Projected Insurance VIF as at the immediately preceding Annual Determination Date, increased on a quarterly compounding basis on each Distribution Determination Date since the Distribution Determination Date first following the last Annual Determination Date at a rate equal to the Projected Spread Rate in respect of the relevant Distribution Period in which such Distribution Determination Date falls, shall be deemed to be the Annual Recourse Insurance Cashflow Amount;
- (b) an amount equal to the Projected Savings VIF as at the immediately preceding Annual Determination Date, increased on a quarterly compounding basis on each Distribution Determination Date since the Distribution Determination Date first following the last Annual Determination Date at a rate equal to the Projected Spread Rate in respect of the relevant Distribution Period in which such Distribution Determination Date falls, shall be deemed to be the Annual Recourse Savings Cashflow Amount;
- (c) such Distribution Determination Date shall be the date by which the Savings Surplus Election shall be made if the Savings Cashflow Tracking Account balance is to be applied in accordance with the procedures set out above on the immediately succeeding Distribution Payment Date;
- (d) any debit from the IL Loan Account and credit to the Deficit Account referred to at 27.2 below shall be made at paragraph 15.1 before determining the balance on the Deficit Account Pre-Write-Down Balance; and
- (e) following such Distribution Determination Date no further debits or credits shall be made to the accounts in respect of any Annual Recourse Insurance Cashflow Amounts or, save as set out in 27.3 below, Annual Recourse Savings Cashflow Amounts (or any components thereof).

27.2 The Partnership shall:

- (a) on the Distribution Payment Date immediately succeeding the Distribution Determination Date referred to in paragraph 27.1 above:
  - (i) pay to the Lender the IL Loan Interest Amount as interest on the IL Loan pursuant to paragraph 22.2(a); and

- (ii) pay to the Lender, in full and final repayment of the IL Loan, an amount equal to the Available Insurance Cashflow Principal pursuant to paragraph 22.3(a) in full and final repayment of the IL Loan and any remaining IL Loan Account Balance shall be transferred to the Deficit Account (in accordance with the procedures above) and no further amounts shall be payable in respect of the IL Loan;
- (b) if a Savings Surplus Election has been made, the Partnership shall pay to the Holder of the SLLPI an amount equal to the SLLPI Profit Distribution pursuant to paragraph 22.2(b) and the SLLPI Loan Reduction Profit Amount pursuant to paragraph 22.3(b) and any remaining Deficit Account Balance, balance on the Missed Spread Account, or balance on the Missed SLLPI EURIBOR Account shall be reduced to zero and no further payments shall be made to the Holder of the SLLPI other than in respect of the return of the €1,000 capital contributed by the initial Holder of the SLLPI on dissolution of the Partnership and any profit (up to €1,000) payable in connection therewith.

27.3 If a Savings Surplus Election is not made, the Savings Cashflow Tracking Account balance shall be increased on a quarterly compounding basis on each Distribution Determination Date by such amount as would be equal to interest on the Projected Savings VIF (as increased pursuant to 27.1(b) above) at a rate equal to the Projected Spread Rate in respect of the Distribution Period in which such Distribution Determination Date falls.

27.4 The General Partner may at any time make a Savings Surplus Election. If it does so, the amount which is then the Savings Cashflow Tracking Account Balance shall be determined and the debits and credits in respect of the relevant accounts made to determine the SLLPI Profit Distribution Amount payable pursuant to paragraph 22.2(b) and the SLLPI Loan Reduction Profit Amount pursuant to paragraph 22.3(b), and such amounts shall be paid by the Partnership to the Holder of the SLLPI. Following such payment any remaining Deficit Account Balance, balance on the Missed Spread Account or balance on the Missed SLLPI EURIBOR Account shall be reduced to zero and no further payments shall be made to the Holder of the SLLPI other than in respect of the return of the €1,000 capital contributed by the initial Holder of the SLLPI on dissolution of the Partnership and any profit (up to €1,000) payable in connection therewith.

## **28. DISSOLUTION EVENT**

Paragraph 27 shall apply if a Dissolution Event occurs with respect to the Limited Partnership prior to the earlier of (i) the Maturity Date of the IL Loan and (ii) the date on which no amount stands to the balance of the IL Loan Account, the Deficit Account, the Missed Spread Account and the Missed SLLPI EURIBOR Account, save that:

- (i) the debits and credits shall be made by the General Partner on the date of dissolution as if such date were an Annual Determination Date;
- (ii) such date shall be deemed an Annual Determination Date for the purposes of making a Savings Surplus Election, and
- (iii) payment of the amounts determined to be payable shall be paid no later than the fifth Business Day following dissolution.

## **29. PARTIAL SALE EVENT**

29.1 The General Partner shall, on each Annual Determination Date, determine whether a Partial Sale Event has occurred.

29.2 A Partial Sale Event shall be deemed to have occurred in the Pre-Amortisation Period if the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the

Dynamic Defined Block which have been transferred since the prior Annual Determination Date (or, in the case of the first Annual Determination Date, since the Closing Date) is less than 50 per cent. of the Projected VIF as at such Annual Determination Date (and greater than zero).

29.3 In the Amortisation Period, a Partial Sale Event shall occur if either of the two following tests are met:

- (a) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the commencement of the Amortisation Period is less than 50 per cent. of the Projected VIF at the commencement of the Amortisation Period (and greater than zero); or
- (b) the aggregate amount of the Projected VIF in respect of the Policies which were comprised in the Dynamic Defined Block which have been transferred since the prior Annual Determination Date is less than 50 per cent. of the Projected VIF as at such prior Annual Determination Date (and greater than zero).

29.4 If a Partial Sale Event occurs, the following shall occur:

- (a) in the Pre-Amortisation Period, on the Annual Determination Date immediately following such transfers the procedure for adding Additional Policies will be applied (as described in "*Description of Dynamic Defined Block – Inclusion of Additional Policies in the Dynamic Defined Block*"). If the result is that an Amortisation Event would occur, (c) below will apply;
- (b) in the Pre-Amortisation Period, if, following such transfers, the procedure for adding Additional Policies has been applied and an Amortisation Event does not occur, Additional Policies will be added in accordance with the description in "*Description of Dynamic Defined Block – Inclusion of Additional Policies in the Dynamic Defined Block*";
- (c) in the Amortisation Period, on the Annual Determination Date immediately following such sale(s):
  - (i) an amount equal to the insurance value-in-force component of the gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer ("**Insurance VIF Sale Proceeds**") will be added to the Annual Recourse Insurance Cashflow Amount; and
  - (ii) an amount equal to the savings value-in-force component of the gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer ("**Savings VIF Sale Proceeds**") will be added to the Annual Recourse Savings Cashflow Amount (and accordingly shall be added to the Savings Cashflow Tracking Account).

29.5 The Insurance VIF Sale Proceeds and the Savings VIF Sale Proceeds shall be determined by the VIF Calculation Agent, subject to the Procedures, as follows:

- (a) first, the gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer for such Policies shall be allocated to (I) that part representing the future profits from the policies and (II) that part representing the net assets sold with respect to such Policies;
- (b) the amount in (a)(II) will not form part of the calculation any further;
- (c) the Insurance VIF Sale Proceeds shall be the amount in (a)(I) multiplied by the fraction  $E/F$  where E is the amount determined as that part of the Projected Insurance VIF as at the

immediately preceding Annual Determination Date as was determined in respect of such Policies which have been sold since the preceding Annual Determination Date and F is the sum of E and the amount determined as that part of the Projected Savings VIF as at the immediately preceding Annual Determination Date as was determined in respect of such Policies which have been sold since the preceding Annual Determination Date;

- (d) the Savings VIF Sale Proceeds shall be the amount in (a)(I) multiplied by the fraction  $G/F$  where G is the amount determined as that part of the Projected Savings VIF as at the immediately preceding Annual Determination Date as was determined in respect of such Policies which have been sold since the preceding Annual Determination Date and F is the amount determined as such under paragraph 29.5(c) above.

29.6 The gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer for the purposes of this paragraph 29 shall be the actual such amounts if such sale was on arm's length terms between unconnected parties. Bank of Ireland shall procure that a report (a "**Fair Value Report**") is obtained from an investment bank acceptable to Ambac (Ambac's acceptance not to be unreasonably withheld or delayed) confirming that the sale was on arm's length terms and expressing an opinion on the fairness of the terms of the sale. If any part of such amounts is other than in cash, the VIF Calculation Agent shall determine what the value of the non-cash amounts is in accordance with the Procedures. If the Fair Value Report states that the sale was other than between unconnected parties and on arm's length terms the VIF Calculation Agent shall notify the Relevant Person and shall, in accordance with the Procedures, agree what the amounts would have been had they been on arm's length terms between unconnected parties, failing which any dispute may be referred to the Independent Actuary in accordance with the Procedures.

29.7 If a Partial Sale Event occurs in the Amortisation Period (or causes the Amortisation Period to occur) and if the sum of the Insurance VIF Sale Proceeds and the Savings VIF Sale Proceeds is less than the sum, as at the immediately preceding Annual Determination Date, of the Insurance VIF and Savings VIF in respect of the Policies which have been transferred since such immediately preceding Annual Determination Date, Additional Policies (if any are available) shall be included (to the extent that they have not previously been included) in the Dynamic Defined Block on the Annual Determination Date first following the transfer having a projected value-in-force at least equal to the deficit. In the event that there are no, or insufficient Additional Policies, Additional Policies will be added to the Dynamic Defined Block to the extent available, but there will be no further compensating arrangement for any remaining deficit.

### 30. SALE ACCELERATION EVENTS

30.1 If a BoI Life Asset Disposal Event or BoI Life Disposal Event occurs, the VIF Calculation Agent shall on the Distribution Determination Date immediately following the occurrence of such event:

- (a) (i) determine an amount equal to
- (x) the insurance value-in-force component of the gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer ("**Insurance VIF Sale Proceeds**") and
  - (y) the amount which would be the IL Loan Account Balance were such date an Annual Determination Date; and
- (ii) determine an amount equal to

- (x) the savings value-in-force component of the gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer ("*Savings VIF Sale Proceeds*") and
  - (y) the amount which would be the sum of the Deficit Account Balance, the Missed Spread Account Balance and the Missed SLLPI EURIBOR Account Balance were such date an Annual Determination Date;
- (b) the amount in (a)(i)(x) will be included in the Annual Recourse Insurance Cashflow Amount and the amount in (a)(ii)(x) will be included in the Annual Recourse Savings Cashflow Amount;
  - (c) the Calculation Agent shall determine whether there would be any balance on the IL Loan Account, the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account if the Insurance VIF Sale Proceeds were to be included in the Annual Recourse Insurance Cashflow Amount and the Savings VIF Sale Proceeds were to be included in the Annual Recourse Savings Cashflow Amount; if there would not be, the Insurance VIF Sale Proceeds and the Savings VIF Sale Proceeds shall be deemed to be, added to, respectively the Annual Recourse Insurance Cashflow Amount and the Annual Recourse Savings Cashflow Amount on such Distribution Determination Date (which shall be a deemed Annual Determination Date) and the payments to be made on the next Distribution Payment Date determined accordingly;
  - (d) if (c) does not apply because there would be remaining balances on the IL Loan Account, the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account even if the Savings Surplus Election had been made, the Insurance VIF Sale Proceeds and the Savings VIF Sale Proceeds will be treated as Annual Recourse Insurance Cashflow Amounts or Annual Recourse Savings Cashflow Amounts and the transaction shall continue on the basis set out in paragraph 30.4.

30.2 In the case of a BoI Life Asset Disposal Event, the Insurance VIF Sale Proceeds and the Savings VIF Sale Proceeds shall be determined by the VIF Calculation Agent as set out in paragraph 29.5 and 29.6.

30.3 In the case of a BoI Life Disposal Event, the Insurance VIF Sale Proceeds and the Savings VIF Sale Proceeds shall be determined by the VIF Calculation Agent as follows:

- (a) first, the gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer shall be allocated to (I) that part representing the future profits from policies not included in the Dynamic Defined Block, (II) that part representing the net assets of all policies of BoI Life and (III) that part which represents the value-in-force of Policies within the Dynamic Defined Block;
- (b) the amount in (a)(I) and(II) will not form part of the calculation any further;
- (c) the Insurance VIF Sale Proceeds shall be the amount in (a)(III) multiplied by the fraction  $E/F$  where E is the Projected Insurance VIF as at the immediately preceding Annual Determination Date and F is the Projected VIF as at the immediately preceding Annual Determination Date;
- (d) the Savings VIF Sale Proceeds shall be the amount in (a)(III) multiplied by the fraction  $G/F$  where G is the Projected Savings VIF as at the immediately preceding Annual Determination Date and F is the Projected VIF as at the immediately preceding Annual Determination Date.

30.4 The provisions of this Part C shall continue to operate save that on each subsequent Annual Determination Date or other date on which an Acceleration Event would require the calculations to be made the following shall occur:

- (a) the Annual Recourse Insurance Cashflow Amount determined shall, to the extent it exceeds the Insurance Spread on the relevant date, be deemed to have been reduced by an amount equal to the Insurance VIF Sale Proceeds until such time as the amount by which it is so reduced equals the Insurance VIF Sale Proceeds; and
- (b) the Annual Recourse Savings Cashflow Amount determined shall, to the extent it exceeds the Savings Spread on the relevant date, be deemed to have been reduced by an amount equal to the Savings VIF Sale Proceeds until such time as the amount by which it is so reduced equals the Savings VIF Sale Proceeds.

30.5 The gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer for the purposes of this paragraph 30 shall be the actual such amounts, if such sale was on arm's length terms between unconnected parties. Bank of Ireland shall procure that a report (a "**Fair Value Report**") is obtained from an investment bank acceptable to Ambac (Ambac's acceptance not to be unreasonably withheld or delayed) confirming that the sale was on arm's length terms and expressing an opinion on the fairness of the terms of the sale. If any part of such amounts is other than in cash, the VIF Calculation Agent shall determine what the value of the non-cash amounts is in accordance with the Procedures. If the Fair Value Report states that the sale was other than between unconnected parties and on arm's length terms the VIF Calculation Agent shall notify the Relevant Person and shall, in accordance with the Procedures, agree what the amounts would have been had they been on arm's length terms between unconnected parties, failing which any dispute may be referred to the Independent Actuary in accordance with the Procedures.

### **31. OVERRIDING LIMITATION**

31.1 Notwithstanding any of the foregoing, the aggregate amount to be paid pursuant to paragraphs 13.3, 22.3, 27.2(a)(ii) and with respect to the SLLPI Loan Reduction Profit Amount, 27.2(b), shall not exceed the amount credited to the IL Loan Account on the Closing Date and if an amount would otherwise be required to be paid it shall not be due or payable and shall be transferred to the GP Capital Account and the relevant IL Loan Account or Deficit Account (as applicable) shall be reduced accordingly. If the IL Loan Account Balance and Deficit Account Balance have been reduced to zero but there is a balance on the Missed Spread Account or the Missed SLLPI EURIBOR Account, the transaction shall continue and such balance shall be payable to the extent that any remaining Annual Recourse Insurance Cashflow Amount has arisen and not otherwise been applied as set out in this Part C and, to the extent of any remaining balance, shall be payable to the extent that any remaining Savings Cashflow Tracking Account Balance remains after application for all other amounts in this Part C, such amount being paid as additional interest (to the extent credited out of Annual Recourse Insurance Cashflow Amounts) and as an additional SLLPI Profit Distribution Amount (to the extent it relates to the balance on the Savings Cashflow Tracking Account).

### **32. DEFERRAL AND REDUCTION FOR REPLACEMENT DEPOSIT BANK DEFICIENCIES**

32.1 The amount payable in respect of the SLLPI and the IL Loan shall be deferred on each Distribution Payment Date in an amount equal to the Replacement Deposit Bank Deficiency in respect of such Distribution Payment Date. If subsequently there is a Replacement Deposit Bank Surplus, the amount previously deferred (and any interest accruing thereon) shall be paid to the extent of such surplus. If there are no investments of the Limited Partnership any balance deferred (and any interest accrued on it) will be written off and the amount will be treated as paid for the purposes of the overriding limitation on payment.



The order of deferral will be first, any SLLPI Loan Reduction Profit Amount; second, any IL Loan Repayment Amount; third, any SLLPI Profit Distribution Amount; and fourth, any IL Loan Interest Amount.

**FORM OF AMBAC FINANCIAL GUARANTEE**

**Financial Guarantee Number UK[●]**

**Issued By**

**Ambac Assurance UK Limited**

**Level 7, 6 Broadgate  
London EC2M 2QS**

**Telephone 020 7786 4300  
Fax 020 7786 4343**

**Registered in England  
Registered Number 3248674**

**Effective Date of this Financial Guarantee: 25 October 2007**

**Financial Guarantee**

Ambac Assurance UK Limited (“**Ambac**”), in consideration of the payment of the Guarantee Fee and subject to the terms of this Financial Guarantee Number UK[●] (the “**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 Non-payment.

**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 11:00am, London time, on the later of (a) the fourth Business Day following Receipt by Ambac of a duly completed Notice of Demand and Certificate from the Beneficiary and (b) the applicable 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 in the appropriate currency or currencies. Save as otherwise provided herein, 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 on behalf of the Beneficiary. Save as otherwise provided herein, once payment by Ambac of an amount in respect of any Guaranteed Obligation (whether on a 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 to the extent of such payment.

**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 Holder by or on behalf of the Issuer have been declared (in whole or in part) a Preference and recovered from the Beneficiary or such Holder pursuant to any Insolvency Law in accordance with a final non-appealable order of a court of competent jurisdiction, the Beneficiary on behalf of such Holder will be entitled under this Financial Guarantee to payment from Ambac upon Receipt by Ambac from the Beneficiary of a duly completed Notice of Demand and Certificate to the extent of such recovery (Guaranteed Amounts, payments of which have been so declared, being referred to herein as “**Avoided Payment Amounts**”).

### **Subrogation**

Upon Ambac making any payment in respect of any Guaranteed Obligation(s), including, for the avoidance of doubt, any Accelerated Payments, to the Account hereunder Ambac shall, to the extent of any such payment be fully and automatically subrogated to the extent permitted by applicable law to all of the rights of the Holders of the Affected Guaranteed Obligations 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 or by contract, whether under the Trust Deed, the Issuer Deed of Charge or otherwise).

### **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 such withholding or deduction is required by law, Ambac shall account to the appropriate tax authority for the amount required to be withheld or deducted and shall make payments in respect of the Guaranteed Obligations net of any such withholding or deduction. Ambac shall not be obliged to pay any additional amount to the Beneficiary or the Holders in respect of such withholding or deduction.

### **Scope of Guarantee**

This Financial Guarantee is not cancellable by Ambac for any reason, including the failure of Ambac to receive payment of the Guarantee Fee. 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 Obligations or otherwise), other than at the sole option of Ambac as specified in the paragraph below entitled "**Accelerated Payments**", 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 Non-payment and any recovery from the Beneficiary or any Holder pursuant to any Insolvency Law, in each case as provided herein.

### **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 (to the fax number or address applicable for notices given in respect of the Trust Deed), 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. Ambac shall, unless otherwise directed by the Beneficiary, make such Accelerated Payment on the proposed Accelerated Payment Date. Such notice shall be deemed to have been delivered (a) in the case of a letter, when delivered to the relevant addressee; or (b) in the case of a fax, when transmission of such fax communication has been received in a legible form and receipt has been confirmed, in each case prior to 12.00 noon (London time) on a Business Day.

### **Waiver of Defences**

The obligations of Ambac under this Financial Guarantee shall not be affected by any lack of validity or enforceability of 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 for the benefit of the Beneficiary and each Holder 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) or (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

Any capitalised terms used in this Financial Guarantee and not defined herein shall have the meaning given to them in the Conditions.

For all the purposes of this Financial Guarantee, the following terms shall have the following meanings:

**“Accelerated Payment”** means any payment (in whole or in part) of any Guaranteed Amount in advance of the Payment Date for such Guaranteed Amount (whether by way of prepayment of any Guaranteed Amount or otherwise) made by Ambac to the Account at Ambac’s sole option and in accordance with this Financial Guarantee, but subject to the Guaranteed Obligations having become due and payable by the Issuer pursuant to the Conditions.

**“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 Payment Date, the bank account specified in the relevant Notice of Demand and Certificate; and
- (b) an Accelerated Payment Date, the bank 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 and Certificate) in respect of which a Non-payment has occurred or will occur, as specified in the relevant Notice of Demand and Certificate;

**“Affiliate”** means, in relation to any Person, any Holding Company of that Person or a Person of which that Holding Company has direct or indirect control or owns directly or indirectly more than 50 per cent. of the share capital or similar rights of ownership or control of another Person;

**“Bank of Ireland”** means The Governor and Company of the Bank of Ireland, established as a chartered corporation by an Act of the Irish Parliament 1781/2 and by Royal Charter of King George III in 1783, whose principal place of business is at Lower Baggot Street, Dublin 2, Ireland;

**“Beneficiary”** means the Note Trustee which expression includes the trustee or trustees for the time being under the Trust Deed;

**“Business Day”** means any day (other than a Saturday or Sunday):

- (a) on which commercial banks are open for general business in London, New York, Dublin and Luxembourg; and
- (b) that is a TARGET Settlement Day;

**“Class A-1 Notes”** means the €380,000,000 Class A-1 Floating Rate Emergence Offset Notes due 2032, issued on the Closing Date;

**“Closing Date”** means 25 October 2007 or any later date which is agreed between the Issuer, Ambac, Bank of Ireland and the Lead Managers;

**“Conditions”** means the terms and conditions of, inter alia, the Class A-1 Notes as set out in Schedule 6 to the Trust Deed as at the date of this Financial Guarantee, as amended from time to time with Ambac’s consent in accordance with the provisions of the Trust Deed (each being a “Condition”);

**“Due for Payment”** means, in relation to any Guaranteed Amounts, that the Payment Date for such Guaranteed Amounts has been reached (irrespective of the limited recourse nature of the Guaranteed Obligations), and, 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;

**“Guarantee 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 Class A-1 Notes pursuant to Condition 6(f) (*Redemption, Purchase and Cancellation - Acceleration*); and
- (b) any principal, interest or any other amounts due in respect of any Class A-1 Notes which are held by or on behalf of, or beneficially belong to, any member of the Issuer Group during the period in which such member of the Issuer Group, or any Person acting on behalf of such member of the Issuer Group, is holder of the Class A-1 Notes, but not thereafter; and
- (c) any interest accruing on interest outstanding in respect of any Class A-1 Notes pursuant to Condition 5(h) (*Interest - Accrual*) except to the extent that such interest accrues by reason of the failure by Ambac to pay any amount due under this Financial Guarantee in accordance with the provisions hereof;

**“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 Amounts”** means, with respect to any Payment Date and irrespective of the limited recourse nature of the Guaranteed Obligations, the sum of (i) Scheduled Interest payable on such Payment Date and (ii) Ultimate Principal payable on such Payment Date, and, for the avoidance of doubt, “Guaranteed Amounts” excludes (a) any Scheduled Interest and Ultimate Principal in respect of which, in either case, Ambac has made an Accelerated Payment on an Accelerated Payment Date falling prior to such Payment Date and (b) any Guarantee Excluded Amounts;

**“Guaranteed Obligations”** means the Class A-1 Notes but shall in all cases exclude all Guarantee Excluded Amounts;

**“Holder”** means a registered holder of a Class A-1 Note;

**“Holding Company”** means any Person of which the first mentioned Person is a Subsidiary;

**“Insolvency Law”** means (i) any applicable bankruptcy or insolvency law of the Grand Duchy of Luxembourg, including, a “*sursis de paiement*”, a “*concordat préventif de la faillite*”, a “*gestion contrôlée*”, a “*liquidation judiciaire*” or a “*faillite*”, and (ii) any applicable bankruptcy or insolvency law of the United Kingdom, including the Insolvency Act 1986, the Insolvency Act 2000, the

Enterprise Act 2002, the Insolvency Rules 1986, the Insolvency Regulations 1994 or any legislation passed in substitution therefor or replacement or amendment thereof;

**“Issuer”** means Avondale Securities S.A., a *société anonyme* incorporated under the laws of Luxembourg, whose registered office is at 7 Val Ste Croix, L 1371 Luxembourg, as issuer of the Class A-1 Notes;

**“Issuer Cash Manager”** means The Bank of New York, a New York banking organisation, acting through its office at One Canada Square, Canary Wharf, London E14 5AL, United Kingdom in its capacity as cash manager in relation to the Class A-1 Notes, or any successor appointed under the terms of the Cash Management Agreement;

**“Issuer Deed of Charge”** means the deed of charge dated the Closing Date between the Issuer, the Security Trustee, the Note Trustee and Ambac;

**“Issuer Group”** means the Issuer, Bank of Ireland and any Person that is either an Affiliate, Holding Company or Subsidiary of any of the foregoing;

**“Lead Managers”** means Lehman Brothers International (Europe) and Goldman Sachs International;

**“Limited Partnership”** means BOI VIF Funding (No.1) LP;

**“Maturity Date”** means the Payment Date falling in 2032;

**“Non-payment”** means, as of any Payment Date, the failure of the Issuer to pay or to have paid all or any part of the Guaranteed Amounts which are Due for Payment on such Payment Date;

**“Note Trustee”** means BNY Corporate Trustee Services Limited, a private company with limited liability incorporated under the laws of England and Wales, whose registered office is at One Canada Square, London E14 5AL, or any successor appointed under the terms of the Trust Deed;

**“Notice of Demand and Certificate”** means a notice of demand and certificate in the form attached hereto, duly executed by the Beneficiary;

**“Paying Agent”** means any of the Paying Agents within the meaning given to that term in Condition 1(a) (*Definitions and Principles of Construction - Definitions*);

**“Payment Date”** means (i) each Interest Payment Date, as defined in Condition 1(a) (*Definitions and Principles of Construction - Definitions*), on which any Scheduled Interest is due and payable, or (ii) the Maturity Date, on which any Ultimate Principal is due and payable, as the case may be;

**“Principal Paying Agent”** means The Bank of New York, a New York banking organisation, acting through its office at One Canada Square, Canary Wharf, London E14 5AL, United Kingdom, in its capacity as principal paying agent in relation to the Class A-1 Notes, or any successor appointed under the terms of the Agency Agreement;

**“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;

**“Preference”** means (i) a preference under applicable bankruptcy or insolvency law of the Grand Duchy of Luxembourg, (ii) a preference pursuant to section 239 of the Insolvency Act 1986 (as amended, varied, replaced or supplemented by any Insolvency Law from time to time) (the **“Insolvency Act”**), (iii) an avoidance of any property disposition pursuant to section 127 of the Insolvency Act and (iv) a transaction at an undervalue pursuant to section 238 of the Insolvency Act;

**“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. In all cases, **“actual delivery”** to Ambac shall require (i) the delivery of the original Notice of Demand and Certificate (together, if applicable, with any attachments thereto) to Ambac at its address (or such other address as Ambac shall, from time to time, designate in writing to the Beneficiary) or (ii) fax transmission of the original Notice of Demand and Certificate (together, if applicable, with any attachments thereto) to Ambac at its fax number (or such other fax number as Ambac shall, from time to time, designate in writing to the Beneficiary). If presentation is made by fax transmission, the sender shall (i) simultaneously confirm the making of the fax transmission by making a telephone call to Ambac at its telephone number (or such other telephone number as Ambac shall, from time to time, designate in writing to the Beneficiary) and (ii) as soon as reasonably practicable, deliver the original Notice of Demand and Certificate (together, if applicable, with any applicable documentation) to Ambac at its address, and the foregoing references to Ambac's address, fax number and telephone number are to its address, fax number and telephone number given in the form of notice of demand and certificate attached hereto;

**“Scheduled Interest”** means, in respect of the Guaranteed Obligations, interest payable thereon as specified in Condition 5 (*Interest*), but disregarding for this purpose the limited recourse nature of the Guaranteed Obligations;

**“Security Trustee”** means BNY Corporate Trustee Services Limited, a private company with limited liability incorporated under the laws of England and Wales, whose registered office is at One Canada Square, London E14 5AL;

**“Subsidiary”** means, in relation to any Person:

- (i) a Person controlled, directly or indirectly, by the first mentioned Person;
- (ii) a Person more than half the issued share capital (or equivalent right of ownership) of which is beneficially owned directly or indirectly by the first mentioned Person; or
- (iii) a Person that is a Subsidiary of another subsidiary of the first mentioned Person;

and for these purposes a Person shall be treated as being controlled by another if that other is able to direct its affairs and/or to control the composition of its board of directors or equivalent body;

**“Trust Deed”** means the trust deed constituting, inter alia, the Class A-1 Notes dated the Closing Date between the Issuer, Ambac and the Note Trustee; and

**“Ultimate Principal”** means, in respect of the Guaranteed Obligations, principal repayable as specified in Condition 6(a) (*Redemption, Purchase and Cancellation – Final Redemption*) under the Class A-1 Notes, but disregarding for this purpose the limited recourse nature of the Guaranteed Obligations.

#### **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 for the benefit of the Holders of the Guaranteed Obligations in respect of Guaranteed Amounts which become Due for Payment but shall have remained unpaid by reason of Non-payment and supersedes any previous agreement between Ambac and the Beneficiary in relation thereto and, save for the provision of a Notice of Demand and Certificate 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 upon the earlier of: (i) the payment by Ambac of an amount equal to the aggregate amount of all Guaranteed Amounts payable hereunder; and (ii) two years and one day following the last Payment Date, provided that, if the Issuer becomes subject to any proceedings pursuant to Insolvency Law (“**Insolvency Proceedings**”) during the period of two years following the last Payment Date, then this Financial Guarantee shall terminate on the later of (a) the date of the final non-appealable conclusion or dismissal of such Insolvency Proceedings without continuing jurisdiction by the court in such Insolvency Proceedings and (b) if the Holder of any Guaranteed Obligation is required to return any payment (or portion thereof) in respect of such Guaranteed Obligation that is declared a Preference as a result of such Insolvency Proceedings, the date on which Ambac has made all payments required to be made under the terms of this Financial Guarantee to the Beneficiary in respect of all Avoided Payment Amounts.

A Person who is not party to this Financial Guarantee shall have no 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. The courts of England and Wales shall have jurisdiction to hear and determine any suits, action or proceedings and to settle any disputes which may arise in connection with this Financial Guarantee and each of Ambac and the Beneficiary irrevocably submits to the jurisdiction of those courts.

**IN WITNESS** whereof, this Financial Guarantee has been executed as a deed on the date inserted above.

Executed and delivered as a deed by:

**AMBAC ASSURANCE UK LIMITED**

By: .....

By: .....

Name: .....

Name: .....

Title: .....

Title: .....

Executed and delivered as a deed by:

**BNY CORPORATE TRUSTEE SERVICES LIMITED**

By: .....

By:.....

Name: .....

Name:.....

Title: .....

Title:.....





**NOTICE OF DEMAND AND CERTIFICATE**

**Under  
Financial Guarantee Number UK[●]**

**Issued by  
Ambac Assurance UK Limited**

**Level 7  
6 Broadgate  
London EC2M 2QS**

**Telephone 020 7786 4300  
Fax 020 7786 4343**

**Registered in England  
Registered Number 3248674**

**Attention: General Counsel**

The undersigned, a duly authorised officer of BNY Corporate Trustee Services Limited (the “Beneficiary”), hereby certifies to Ambac Assurance UK Limited (“Ambac”), with reference to the Financial Guarantee Number UK[●] dated 25 October 2007 (the “Financial Guarantee”) issued by Ambac in respect of the obligations of Avondale Securities S.A. (the “Issuer”), that:

- (i) the Beneficiary is the Note Trustee under the Trust Deed for the Holders;
- (ii) [the Beneficiary has been notified by the Issuer Cash Manager that the deficiency in respect of the Guaranteed Amounts which [are/were] Due for Payment on [insert Payment Date] under the Class A-1 Notes (the “Affected Guaranteed Obligations”) [will be/was/is] [insert applicable currency and amount] (the “Shortfall”). Of such Shortfall, [insert applicable currency and amount] is Scheduled Interest on the Affected Guaranteed Obligations; and [insert applicable currency and amount] is Ultimate Principal on the Affected Guaranteed Obligations;]

**OR**

[the Beneficiary or the Holders [has/have been] required to repay [insert applicable currency and amount] (the “Avoided Payment Amount”) to the Issuer on [insert date] in connection with a Preference declared or recovered from the Beneficiary or such Holder(s) pursuant to any Insolvency Law in accordance with a final non-appealable order of a court of competent jurisdiction;]

- (iii) the Beneficiary is making a claim under the Financial Guarantee for the [Shortfall/Avoided Payment Amount] to be applied to the payment of the Guaranteed Amounts [which are Due for Payment/, payments of which have been declared a Preference];
- (iv) the Beneficiary agrees that, following payment of funds by Ambac, it shall procure, and in relation to sub paragraph (c) shall use reasonable endeavours to procure, (a) that such amounts are applied directly to the payment of Guaranteed Amounts [which are Due for Payment/, payments of which have been declared a Preference]; (b) that such funds are not applied for any other purpose; and (c) that an accurate record is maintained of all such payments with respect to each Guaranteed Obligation and the corresponding claim under the Financial

Guarantee and the proceeds thereof, and, for the purposes of (a) and (b), 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, effective as of the date on which the Shortfall is credited to such account, Ambac shall, to the extent of the Shortfall, be fully and automatically subrogated to the extent permitted by applicable law to all of the rights of the Holders of the Affected Guaranteed Obligations to payment of the Guaranteed Amounts (including, without limitation, any rights and benefits attached thereto and any security granted at law or by contract, whether under the Trust Deed, the Issuer Deed of Charge or otherwise).

Unless the context otherwise requires, capitalised terms used in this Notice of Demand and Certificate and not defined herein shall have the meanings given 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 funds 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 [●] 20[●].

**BNY CORPORATE TRUSTEE SERVICES LIMITED**

By: .....

By:.....

Name: .....

Name:.....

Title: .....

Title:.....

## DESCRIPTION OF THE CALCULATION AGREEMENT

*The following is a summary of the principal terms of the Calculation Agreement and is qualified by reference to the detailed provisions thereof. The following does not purport to be complete and prospective investors must refer to the Calculation Agreement for detailed information regarding the Calculation Agreement. A copy of the Calculation Agreement may be inspected at the offices of any Paying Agent and/or the registered office of the Issuer as set out under "General Information".*

BoI Life, the Relevant Person, the Security Trustee, the Note Trustee, Ambac, the Limited Partnership and the General Partner will enter into a calculation agreement (the "**Calculation Agreement**") on the Closing Date pursuant to which the Limited Partnership will appoint BoI Life as VIF Calculation Agent and Watson Wyatt as Relevant Person. In the Calculation Agreement, BoI Life will undertake to make, in accordance with the terms of the Limited Partnership Agreement, the calculations necessary to determine, *inter alia*, Projected VIF and the Annual Recourse Cashflow Amounts. The Calculation Agreement will also set out the rights and obligations of the Relevant Person to review the VIF Calculation Agent's work and methods on behalf of the Limited Partnership. The procedures for the VIF Calculation Agent's calculations and the scope of and procedures for the Relevant Person's review are set out in the Limited Partnership Agreement, the relevant part of which will be incorporated by reference into the Calculation Agreement, and are described above in "*Description of the Dynamic Defined Block – The Procedures for determining the Annual Recourse Cashflow Amount and the Projected VIF*".

The Calculation Agreement will also oblige BoI Life, as VIF Calculation Agent, to monitor the Dynamic Defined Block and its business for any Invalidities and promptly inform in writing the Limited Partnership, Ambac and the Security Trustee upon becoming aware of the occurrence of any Invalidity. The VIF Calculation Agent will be obliged to provide the Relevant Person and the Independent Actuary with access to such information and records as the Relevant Person or, as the case may be, the Independent Actuary may reasonably require in order to perform its functions under the Calculation Agreement and the relevant provisions of the Limited Partnership Agreement.

The VIF Calculation Agent will grant to the Relevant Person, the Limited Partnership and Ambac (for so long as it is the Controlling Creditor and thereafter the Security Trustee (on behalf of the Note Trustee and the Secured Creditors)) access to use its computer software in connection with the operation of the Model and the performance of their obligations under the Calculation Agreement and the relevant provisions of the Limited Partnership Agreement and will use its reasonable best efforts to procure that the relevant third-party software providers will grant them such further licences as may be required for them to use that computer software.

The initial Relevant Person (being Watson Wyatt) has agreed to take into account on a non-exhaustive basis, the general interests of the Noteholders as a group. However, it will not consider the interests of any particular Noteholder on an individual basis and will not assume a duty of care to Noteholders either individually or collectively.

The fees and expenses of the Relevant Person (while Watson Wyatt is the Relevant Person) will be borne by the Limited Partnership up to a cap of €20,000 *per annum* (exclusive of VAT) (increased each year from the Closing Date in line with UK retail prices index), save in a year in respect of which a Benchmark Event occurs, when the cap will be €100,000 (exclusive of VAT) (increased each year from the Closing Date in line with UK retail prices index) provided that if Watson Wyatt is no longer the Relevant Person the fees and expenses of the Relevant Person will no longer be subject to a cap (unless otherwise agreed with the successor Relevant Person). If the Relevant Person has stopped any current investigation because its fees have reached the above-described cap and Ambac has reasonable commercial grounds for desiring that investigation to continue, Ambac, as long as it is the Controlling Creditor, will be entitled, at its expense, to require the Relevant Person to continue with that investigation. Any costs of the Relevant Person arising from the continuance of the investigation will be for Ambac's account.

The cap on the fees of the Relevant Person will be capable of being raised to the extent necessary to facilitate the appointment of a new Relevant Person in the event of the resignation of the existing Relevant Person at any time.

Furthermore, Ambac, as long as it is the Controlling Creditor, will be entitled:

- (a) to receive a copy of the draft report of the Relevant Person setting out its findings regarding its review of the calculations made by the VIF Calculation Agent and of the determinations made by the VIF Calculation Agent in respect of any Invalidities;
- (b) to discuss the findings in the draft report with the Relevant Person on a confidential basis;
- (c) if Ambac has reasonable commercial grounds for desiring further investigation or analysis, to instruct the Relevant Person, before finalising its findings, to conduct further investigation or analysis of any issue mentioned in the draft report or which Ambac, in its reasonable commercial judgement, believes should be mentioned in the report and to provide a further report;
- (d) to identify particular issues, either mentioned in the report or which Ambac, in its reasonable commercial judgement, believes should be mentioned in the report, in respect of which the Relevant Person should not reach agreement with the VIF Calculation Agent without Ambac's consent (which Ambac may not unreasonably withhold) so that, where necessary, such issues will be required to be referred to an Independent Actuary for resolution;
- (e) on reasonable commercial grounds and after consultation with the Relevant Person, to instruct the Relevant Person to serve a Potential Invalidity Notice on BoI Life in respect of any matter that could reasonably be expected to cause a Material Adverse Effect; and
- (f) to be informed by the Relevant Person, before such consent or agreement is given, of any matter in respect of which BoI Life has requested the consent or agreement of the Relevant Person, and to direct the Relevant Person to withhold the consent or agreement pending resolution of any issue or satisfaction of any condition.

The Calculation Agreement will set out the terms on which Ambac, when it is Controlling Creditor, will have rights in relation to calculations performed by BoI Life. These rights will include the right, once per year, and subject to reasonable access to staff and systems, to ask for a review to be carried out by an independent actuary, separately from any review which might take place by reason of the interaction of BoI Life and the Relevant Person. In this case, Ambac would pay for the costs of the independent actuary in the review, but would be reimbursed for these costs by the Limited Partnership if the review led to the discovery of one or more Invalidities whose effect was a reduction in the Projected VIF in an amount equal to or greater than five per cent. or whose effect was a reduction in the Annual Recourse Cashflow Amount in an amount equal to or greater than ten per cent. of the Projected Surplus for the relevant Accounting Period.

The Calculation Agreement will permit the parties, with (while Ambac is the Controlling Creditor) the consent of Ambac (such consent not to be unreasonably withheld), to agree to change the calculations used to determine the Aggregate Annual Adjustment Amount, which have been deliberately expressed, for purposes of simplification, as approximations to the components of surplus that are to be taken into account in determining the Annual Recourse Insurance Cashflow Amount. If either the VIF Calculation Agent or the Relevant Person considers that the specified calculations produce a result that is incorrect to a material degree, then an alternative basis of calculation that better achieves the objective, and mutually agreed between the Calculation Agent and the Relevant Person, with the prior written consent of Ambac which will not be unreasonably withheld, may be adopted.

The Limited Partnership will indemnify the VIF Calculation Agent against all costs and expenses reasonably incurred by the VIF Calculation Agent. Under the Support Agreement, Bank of Ireland will provide funds to the Limited Partnership so that it can pay these costs and expenses.

The Calculation Agreement will specifically exclude liability for the VIF Calculation Agent for any loss, liability, claim, expense or damage (direct or indirect) suffered or incurred by the Limited Partnership and/or the General Partner and/or Ambac and/or the Note Trustee and/or the Security Trustee and/or the Relevant Person as a result of the VIF Calculation Agent's performance or non-performance of its obligations. However, a failure by the VIF Calculation Agent to meet its calculation and information obligations under the Calculation Agreement (in the absence of a Force Majeure Event) may result in Bank of Ireland being liable for any cost, loss or liability incurred in connection therewith. Furthermore, the Dividend Stopper would be triggered if, provided that no Force Majeure Event has occurred and is continuing and no BoI Life Disposal Event has occurred, BoI Life either (i) wilfully refuses to calculate the Annual Recourse Insurance Cashflow Amounts, the Annual Recourse Savings Cashflow Amount, the Projected VIF, the Projected Insurance VIF, the Projected Savings VIF, the Projected Balance Sheet Insurance VIF or the Projected Surplus under the Calculation Agreement (for the avoidance of doubt, inaccurate calculations shall not constitute wilful refusal unless deliberately inaccurate) or (ii) unreasonably and in bad faith prevents the Relevant Person or an Independent Actuary from accessing the information necessary for it to make such calculations for a period of at least 5 Business Days (provided that the Dividend Stopper will not apply to the extent that, following a BoI Life Asset Disposal Event, BoI Life's failure is attributable only to the performance or failure to perform of the purchaser). See "*Description of the Support Agreement*" below.

Ambac (if at such time Ambac is the Controlling Creditor) or, to the extent it has actual knowledge of any of the events described in (a)-(d) below, the Security Trustee acting on the instructions of the then Controlling Creditor (if at such time Ambac is no longer the Controlling Creditor) may terminate the appointment of the Relevant Person (A) by giving not less than six months' written notice or (B) by giving not less than 30 days' written notice if, *inter alia*, (a) the Relevant Person fails to perform or observe any of its covenants and obligations under the Calculation Agreement or the terms set out in Schedule 5 of the Limited Partnership Agreement, (b) the Relevant Person persistently fails to report its findings on the VIF Calculation Agent's calculations, (c) the Relevant Person carries out its functions in such a manner as to interfere with the proper running of the VIF Calculation Agent's business or to put the VIF Calculation Agent to unnecessary expense or inconvenience or (d) the Relevant Person ceases to or threatens to cease to carry on its business or a petition is presented, or a resolution is duly passed or other steps are taken or any order is made by any competent court for or towards the winding up or dissolution of the Relevant Person. However, the appointment of the Relevant Person may not be terminated until a firm of independent actuaries of recognised standing approved by Ambac (if at such time Ambac is the Controlling Creditor) or the Security Trustee acting on the instructions of the then Controlling Creditor (if at such time Ambac is no longer the Controlling Creditor) has been appointed as a substitute Relevant Person on substantially similar terms.

The Relevant Person may resign its appointment under the Calculation Agreement by giving not less than six months' notice in writing to the Limited Partnership, Ambac, the Note Trustee and the Security Trustee (unless such notice would expire in the period between the end of an Accounting Period and the Interest Payment Date immediately following the next Annual Determination Date, in which case such notice shall not expire until the first Business Day following such Interest Payment Date) or such shorter period as may be approved by Ambac (if at such time Ambac is the Controlling Creditor) or the Security Trustee acting on the instructions of the then Controlling Creditor (if at such time Ambac is no longer the Controlling Creditor), such approval not to be unreasonably withheld or delayed, provided that the Limited Partnership shall use reasonable endeavours to find and appoint a firm of independent actuaries of recognised standing as substitute relevant person (subject to any such appointment being approved by Ambac (if at such time Ambac is the Controlling Creditor) or the Security Trustee acting on the instructions of the then Controlling Creditor (if at such time Ambac is no longer the Controlling Creditor)).

All parties to the Calculation Agreement will agree not to petition for the winding up of the General Partner or the Limited Partnership or to join any person in initiating any Insolvency Proceedings in relation to the Limited Partnership or the General Partner or the appointment of an Insolvency Official in relation to the Limited Partnership or the General Partner or in relation to the whole or any substantial part of the undertaking or assets of the Limited Partnership or the General Partner.

The Calculation Agreement will be governed by English law.

## DESCRIPTION OF THE SUPPORT AGREEMENT

On the Closing Date, Bank of Ireland, the General Partner (on behalf of the Limited Partnership), Ambac and the Security Trustee will enter into a Support Agreement (the “**Support Agreement**”).

### **Payments under the Support Agreement**

Under the Support Agreement, Bank of Ireland agrees that it will make certain payments as follows to the Limited Partnership.

Prior to the first Downgrade Direction Transfer Date, the Support Provider shall:

- (a) pay to the Limited Partnership an amount equal to the costs, expenses, taxes and other liabilities of the Limited Partnership (other than any amounts payable under or in respect of the IL Loan or the SLLPI or in respect of any other distributions of profit to any partner) on or before the date such cost, expense, tax or liability falls due for payment;
- (b) pay to the Limited Partnership, on or before the date on which the same are incurred, (i) an amount in respect of any break costs on any investment of the Limited Partnership at the time such break costs are incurred; (ii) an amount in respect of any withholding for or on account of tax in respect of investment of the Limited Partnership; and (iii) any Additional Amount which the Limited Partnership is required to pay on the IL Loan or the SLLPI; and
- (c) ensure that the Limited Partnership has sufficient funds on each due date to pay any amounts required to be paid on the IL Loan or as distributions in respect of the SLLPI when due (including, to the extent not paid under (b), any Additional Amounts (as defined in, respectively, the IL Loan and the SLLPI) required to be paid in respect thereof).

On and following the first Downgrade Direction Transfer Date (see below), the Support Provider shall:

- (a) pay to the Limited Partnership an amount equal to the costs, expenses, taxes and other liabilities of the Limited Partnership (other than any amounts payable under or in respect of the IL Loan or the SLLPI or in respect of any other distributions of profit to any partner) on or before the date such cost, expense, tax or liability falls due for payment (including the costs (but excluding, for the avoidance of doubt, the acquisition cost) and expenses incurred by the Limited Partnership in respect of the reinvestment of the Limited Partnership’s investments in replacement Permitted Investments pursuant to the direction in any Downgrade Direction Notice) but excluding the costs, losses, liabilities and expenses referred to in (c)(y) below;
- (b) pay to the Limited Partnership, on or before the date on which the same are incurred, an amount in respect of any Additional Amounts payable by the Limited Partnership under the IL Loan or the SLLPI following a Downgrade Direction Transfer Date but only to the extent that equivalent Additional Amounts would have been payable if the Limited Partnership had continued to hold the Permitted Investments that it was holding (the “**Pre-DDE Assets**”) immediately prior to the Downgrade Direction Transfer Date;
- (c) ensure that the Limited Partnership has sufficient funds on each due date to pay any amounts required to be paid on the IL Loan or as distributions in respect of the SLLPI when due (excluding, save as provided in (b), any Additional Amounts (as defined in, respectively, the IL Loan and the SLLPI)) less an amount equal on each Distribution Payment Date to the sum of (x) any Replacement Deposit Bank Deficiency in respect of such Distribution Payment Date and (y) any costs loss, liabilities and expenses suffered or incurred by the Limited Partnership that are suffered or incurred as a result solely of it being invested in the replacement Permitted Investments which would not have been suffered or incurred if the



Limited Partnership had continued to hold the Pre-DDE Assets (each “**Post-DDE Loss Amount**”); and

- (d) on the date on which the investments of the Limited Partnership are reinvested in the replacement Permitted Investments, pay to the Limited Partnership an amount equal to the Top Up Payment, which shall be invested as directed pursuant to the Downgrade Direction Notice.

Under the Support Agreement, each of the General Partner and the Limited Partnership will appoint each of Ambac and the Security Trustee as its attorney, each pursuant to an Investment Powers of Attorney, to effect or to appoint a delegate to effect the realisation of investments and reinvestment of the proceeds (in the case of the Security Trustee, in accordance with the Deposit Policy if the investments were Deposits or as directed by the Note Trustee, itself directed by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or an Extraordinary Resolution of the holders of the Most Senior Class) in replacement Permitted Investments should the General Partner fail, within the 30-day period, to comply with the Downgrade Direction Notice.

Promptly following the first Downgrade Direction Transfer Date the General Partner shall determine the Transfer Date Notional Principal Balance as follows:

- (a) the Spread actually paid on each Distribution Payment Date prior to the Downgrade Direction Transfer Date shall be determined (after deduction of any Insurance Interest Reduction Amount or any Profit Distribution Reduction Amount);
- (b) for each Distribution Payment Date ending prior to the Downgrade Direction Transfer Date, the interest which would have been payable on the Fixed Rate Deposit in respect of the Distribution Period ending thereon shall be determined, assuming that the interest would be calculated by reference to the Notional Principal Balance immediately following the preceding Distribution Payment Date (or the Opening Principal Balance in case of the Distribution Payment Date) and assuming no break costs or withholding tax would have arisen in respect thereof;
- (c) any amounts that would have been required to be paid by Bank of Ireland to the Limited Partnership under the Support Agreement under paragraph (c) of the above section referring to the Support Provider’s obligations prior to the first Downgrade Direction Transfer Date on any date prior to the Downgrade Direction Transfer Date if the assets of the Limited Partnership had remained invested in the Fixed Rate Deposit and the Floating Rate Deposit shall be determined;
- (d) the “**Notional Fixed Deposit Receipt**” on each Distribution Payment Date is (i) the Spread actually paid on such Distribution Payment Date (after deduction of any Insurance Interest Reduction Amount or any Profit Distribution Reduction Amount) less (ii) the interest which would have been payable on the Fixed Rate Deposit in respect of the Distribution Period ending thereon, assuming that the interest would be calculated by reference to the Notional Principal Balance immediately following the preceding Distribution Payment Date (or the Opening Principal Balance in the case of the first Distribution Payment Date) and assuming no break costs or withholding tax would have arisen in respect thereof less (iii) any amounts that would have been required to be paid by Bank of Ireland to the Limited Partnership under the Support Agreement under paragraph (c) of the above section referring to the Support Provider’s obligations prior to the first Downgrade Direction Transfer Date on such Distribution Payment Date or during the Distribution Period ending on such Distribution Payment Date or any date prior to the Downgrade Direction Transfer Date if the assets of the Limited Partnership had remained invested in the Fixed Rate Deposit and the Floating Rate Deposit;

- (e) the “**Notional Principal Balance**” for each Distribution Payment Date shall be determined as (i) the Opening Principal Balance less (ii) the aggregate Notional Fixed Deposit Receipt for each prior Distribution Payment Date (and for the avoidance of doubt, the Notional Fixed Deposit Receipt in respect of any Distribution Payment Date may be negative, and if the sum of the Notional Fixed Deposit Receipts is negative, the Notional Principal Balance will be greater than the Opening Principal Balance);
- (f) the “**Transfer Date Notional Principal Balance**” shall be determined as the Notional Principal Balance immediately following the Distribution Payment Date immediately preceding the date on which the assets of the Limited Partnership are reinvested in replacement Permitted Investments in accordance with a Downgrade Direction Notice; and
- (g) the “**Opening Principal Balance**” shall be the value of the Fixed Rate Deposit immediately following the Closing Date.

On the first Downgrade Direction Date the General Partner, acting on behalf of the Limited Partnership shall calculate the Top Up Payment as follows:

- (a) the realisable value (in Euro) of the investments of the Limited Partnership immediately prior to such Downgrade Direction Date shall be determined (“**Assets Available for Investment**”);
- (b) the amount corresponding to the initial IL Loan Advance less the amount equal to the sum of the IL Principal Repayments and the SLLPI Loan Reduction Profit Amounts paid on or before such date shall be determined (in respect of the Downgrade Direction Transfer Date, the “**Required EURIBOR Investment**”, and in respect of any other date, the “**Notional EURIBOR Investment**”);
- (c) an amount (if any) by which the value of the Assets Available for Investment exceeds the amount of the Required EURIBOR Investment shall be determined (the “**Assets to fund Spread Investments**”). If the Assets Available for Investment are less than the Required EURIBOR Investment, such deficiency shall be determined;
- (d) if the Assets to fund Spread Investments are less than the Transfer Date Notional Principal Balance the deficiency shall be determined; and
- (e) the “**Top Up Payment**” is the amount determined as the deficiency (if any) in (c) plus the deficiency (if any) in (d).

On each Distribution Payment Date following the first Downgrade Direction Transfer Date an amount will be determined as follows:

- (a) the amount which the Limited Partnership would have been capable of realising from its investments for the purposes of the performance of its obligations on such Distribution Payment Date if its investments had continued to be invested in the Pre-DDE Assets, supplemented with the Top-Up Payment (subject to a maximum amount necessary for the performance of those obligations);

MINUS

- (b) the amount which the Limited Partnership is actually capable of realising from its investments for the purposes of the performance of its obligations on such Distribution Payment Date (subject to a maximum amount necessary for the performance of those obligations plus the current balance of the RDBD Account (as defined below)).

Where this amount is positive, it will be a “**Replacement Deposit Bank Deficiency**”. Where this amount is negative, its absolute value will be a “**Replacement Deposit Bank Surplus**”.

On each Distribution Payment Date following the first Downgrade Direction Transfer Event, the General Partner shall use all reasonable efforts to realise amounts from its investments for the purposes of the performance of its obligations on such Distribution Payment Date so as to avoid or minimise any Replacement Deposit Bank Deficiency or to maximise any Replacement Deposit Bank Surplus.

If there is any Replacement Deposit Bank Deficiency or any Post-DDE Loss Amount, the amount shall be recorded on an account (the “**RDBD Account**”) and the amounts standing to the credit of that account shall accrue interest in each Distribution Period following its being credited to such account at a rate equal to EURIBOR plus the Weighted Average Spread Rate for such period on a quarterly compounding basis.

The amount of any Replacement Deposit Bank Deficiency and any Post-DDE Loss Amounts will, in accordance with the terms of the IL Loan and the SLLPI, reduce the amounts payable on the SLLPI and the IL Loan on the Distribution Payment Date on which such deficiency arises as follows: first, on any SLLPI Loan Reduction Profit Amount then on any IL Loan Repayment Amount then on any SLLPI Profit Distribution Amount then on any IL Loan Interest Amount. For the purposes of paragraph 31 of Schedule 4 to the Limited Partnership Agreement such amounts will be deemed to have been paid.

The amount of any Replacement Deposit Bank Surplus will, in accordance with the terms of the IL Loan and the SLLPI, increase the amount payable on the SLLPI and the IL Loan on the Distribution Payment Date on which such surplus arises as follows: first, on any SLLPI Loan Reduction Profit Amount then on any IL Loan Repayment Amount then on any SLLPI Profit Distribution Amount then on any IL Loan Interest Amount. For the purposes of paragraph 31 of Schedule 4 to the Limited Partnership Agreement such amounts will be ignored.

The Limited Partnership (acting through its General Partner) will promptly notify the Support Provider of any amounts payable in accordance with this Support Agreement and the Support Provider will pay to the Limited Partnership, as an addition to the Limited Partnership’s income, the amounts required to be paid as set out above.

Any amounts paid by the Support Provider under the Support Agreement will not be recoverable by the Support Provider.

All sums payable by the Support Provider under the Support Agreement will be paid free and clear of all deductions or withholdings for or on account of tax unless the deduction or withholding is required by law, in which event, the Support Provider will pay such additional amounts as will be required to ensure that the net amount received and retained by the Limited Partnership (after tax) will equal the full amount which would have been received and retained had no such deduction or withholding been made. In addition, all sums payable pursuant to the Support Agreement will be exclusive of VAT (if any).

#### **Downgrade Direction Event**

The Limited Partnership and the General Partner will each covenant with Ambac and the Security Trustee that, as soon as practicable and in any event within 30 days of receiving a Downgrade Direction Notice, it will use all reasonable endeavours to comply with the notice by realising or otherwise disposing of the Limited Partnership’s investments and investing the proceeds in replacement Permitted Investments as directed. Each of Bank of Ireland and the General Partner will notify Ambac, the Security Trustee and the Note Trustee in writing promptly upon becoming aware of the occurrence of Bank of Ireland ceasing to have the Required Ratings or of a Ratings Event.

Neither the Security Trustee nor the Note Trustee will be (i) responsible for monitoring, ascertaining or establishing whether or not Bank of Ireland has the Required Ratings or (ii) be liable to any person for any loss arising therefrom or from realisation or disposal of the Limited Partnership's investments or their reinvestment in Permitted Investments.

Unless and until each of the Security Trustee and the Note Trustee has actual knowledge or express notice to the contrary, it will be entitled to assume that Bank of Ireland has and continues to have the Required Ratings and that a Ratings Event (defined as aforesaid) has not occurred.

If the General Partner fails to comply with the Downgrade Direction Notice by the end of the 30-day period, Ambac (if it is the Controlling Creditor) may or the Security Trustee (if Ambac is not the Controlling Creditor) will, under the relevant Investment Power of Attorney, arrange (or, in the case of the Security Trustee, delegate the powers conferred on it to an appropriate delegate to arrange) for the realisations to be made and the reinvestment of the proceeds in replacement Permitted Investments (in the case of the Security Trustee and a transfer of the Deposits, in accordance with the Deposits Policy, and, in the case of the realisation or disposal and investment of the proceeds of such realisation or disposal, at the direction of the Note Trustee with the sanction of holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or of an Extraordinary Resolution of the holders of the Most Senior Class).

Neither the Note Trustee nor the Security Trustee will be responsible or liable to anyone for any loss occasioned by any delay in the appointment of any such delegate or by not being able to find an appropriate delegate, nor will they be liable for any loss suffered by any person as a result of any delay in finding replacement Permitted Investments or not being able to find replacement Permitted Investments.

For these purposes:

**"Downgrade Direction Date"** means the date on which a Downgrade Direction Notice is received by the General Partner on behalf of the Limited Partnership.

**"Downgrade Direction Event"** will occur if the Support Provider ceases to have the Required Ratings and:

- (a) Ambac (if it is the Controlling Creditor); or
- (b) the Security Trustee (if Ambac is not the Controlling Creditor (having been notified by the Support Provider that it has ceased to have the Required Ratings and having been directed by the Note Trustee, itself so directed by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or by an Extraordinary Resolution of the holders of the most Senior Class, to so direct),

directs the General Partner to realise the Limited Partnership's investments (including any Permitted Investments) and to reinvest the proceeds in replacement Permitted Investments (in the case of the Security Trustee, in accordance with the Deposits Policy if the investments were Deposits or as directed by the Note Trustee, itself directed by holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or by an Extraordinary Resolution of the holders of the Most Senior Class).

**"Downgrade Direction Notice"** means a notice given by Ambac (if it is the Controlling Creditor) or the Security Trustee (if Ambac is not the Controlling Creditor and the Security Trustee is so instructed by the Controlling Creditor) in respect of a Downgrade Direction Event substantially in the form attached to the Support Agreement.

**“Downgrade Direction Transfer Date”** means the date on which the Downgrade Direction Notice is complied with or the date on which the investments of the Limited Partnership are reinvested (or, if more than one such date, the earliest one).

### **Dividend Stopper**

The Support Provider covenants in the Support Agreement that, it (i) will not declare or pay any distribution or dividend or make any other payment on any of its ordinary stock, (ii) will procure that no distribution, dividend or other payment is made on any of its ordinary stock, and (iii) it will not redeem, purchase, cancel, reduce or otherwise acquire any of its ordinary stock (provided that the foregoing shall not prevent BoI Life from acquiring ordinary stock of the Support Provider as part of assets allocated in part or in whole to liabilities to policyholders or any other member of the Group from acquiring ordinary stock on behalf of its clients as part of its asset management or other similar business) in each case in the period (the **“Dividend Stopper Period”**) after the occurrence of any of the following events until the earlier of the Dividend Stopper Remedy Date and the Distribution Payment Date falling in July 2032. The events (each a **“Dividend Stopper Event”**) are:

- (a) the Limited Partnership fails to pay amounts due on the IL Loan or the SLLPI after the expiry of any applicable grace periods provided (i) such failure is not because of a Replacement Deposit Bank Deficiency or Post-DDE Loss Amount and (ii) that no Force Majeure Event is then subsisting;
- (b) the General Partner does not make a Savings Surplus Election in respect of an Annual Determination Date (or a date treated as an Annual Determination Date for the purposes of making a Savings Surplus Election) on or before such date, unless (i) the making of a Savings Surplus Election in respect of such date would have no effect on the amount payable by the Limited Partnership in respect of the SLLPI on that Annual Determination Date or any of the Distribution Payment Dates falling on or prior to the next Annual Determination Date or (ii) such date is an Acceleration Date in respect of a Dissolution Event either (x) arising from Ambac taking or initiating any action or proceeding for the dissolution of the Limited Partnership (including, without limitation, by rescission or repudiation) or (y) arising from any of the Issuer, the Security Trustee or other Secured Creditor taking or initiating any action or proceeding for the dissolution of the Limited Partnership as a result of a direction of or of encouragement given by Ambac at a time when it is the Controlling Creditor; or
- (c) provided that no Force Majeure Event has occurred and is continuing and no BoI Life Disposal Event has occurred, BoI Life either (i) wilfully refuses to calculate the Annual Recourse Insurance Cashflow Amounts, the Annual Recourse Savings Cashflow Amount, the Projected VIF, the Projected Insurance VIF, the Projected Savings VIF, the Projected Balance Sheet Insurance VIF or the Projected Surplus under the Calculation Agreement (for the avoidance of doubt, inaccurate calculations shall not constitute wilful refusal unless deliberately inaccurate) or (ii) unreasonably and in bad faith prevents the Relevant Person or an Independent Actuary from accessing the information necessary for it to make such calculations for a period of at least 5 Business Days (provided that the Dividend Stopper will not apply to the extent that, following a BoI Life Asset Disposal Event, BoI Life’s failure is attributable only to the performance or failure to perform of the purchaser).

For these purposes, a **“Force Majeure Event”** will occur if there is any delay in performing or inability to perform an obligation if the same is due to act of God or public enemy, war, insurrections or riots, fire, flood, explosion, earthquake, accident, epidemic or quarantine restrictions or to any acts of government or of any governmental or regulatory or fiscal agency, or to strikes or labour troubles causing cessation, slow down or interruption of work, to the extent that it is beyond the reasonable foresight and control of the party concerned and to the extent that the party concerned could not with reasonable endeavours nevertheless perform the obligation.

The “Dividend Stopper Remedy Date” is:

- (a) in the case of the Dividend Stopper Event in (a) immediately above, the date on which the Limited Partnership pays such amount together with any accrued interest on it;
- (b) in the case of the Dividend Stopper Event in (b) immediately above, the date on which the General Partner makes (or being deemed to make) a Savings Surplus Election and amounts which would have been payable had such an election been made are paid together with the amount of notional interest accruing thereon; and
- (c) in the case of the Dividend Stopper Event in (c) immediately above, the date on which BoI Life complies with its obligations under the Calculation Agreement to calculate the Annual Recourse Insurance Cashflow Amount, the Annual Recourse Savings Cashflow Amount, the Projected Insurance VIF, the Projected Savings VIF, the Projected Balance Sheet Insurance VIF and the Projected Surplus or, as applicable, permits access to the Relevant Person or Independent Actuary and, in either case, amounts which would have been payable had BoI Life complied with such obligations are paid together with the amount of interest accruing thereon.

If Bank of Ireland is subject to a requirement under the Support Agreement not to pay a dividend but nevertheless does so, or otherwise breaches the Dividend Stopper, an Acceleration Event will occur and the IL Loan will be repayable at the amount of the Liquidation Repayment and, if the General Partner makes a Savings Surplus Election with respect thereto, a distribution will be payable on the SLLPI of an amount equal to the lesser of (i) the Liquidation Distribution and (ii) the aggregate amount paid by way of dividend or otherwise distributed or the value of the shares redeemed, repurchased or otherwise acquired in breach of the Dividend Stopper. If Bank of Ireland fails to comply with the terms of the Dividend Stopper and the General Partner does not make a Savings Surplus Election, a Savings Surplus Election will be deemed to be made, but only as respects such part of the balance of the Savings Cashflow Tracking Account as equals the aggregate amount paid by way of dividend or otherwise distributed or the value of the shares redeemed, repurchased or otherwise acquired in breach of the Dividend Stopper.

Bank of Ireland will covenant in the Support Agreement that, until seven Business Days following the earlier of (i) the IL Loan Account balance being reduced to zero and there being no balance on the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account and (ii) the Maturity Date (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid), it will not take any capital or profits out of the General Partner.

In addition Bank of Ireland will covenant in the Support Agreement that if a BoI Life Disposal Event or a BoI Life Asset Disposal Event occurs and balances on any of the IL Loan Account, the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account remain, it will procure that:

- (a) in the case of a BoI Life Disposal Event, the person who provides covenants to Bank of Ireland in respect of the sale covenants with the relevant Bank of Ireland Group member to procure that BoI Life continue to make the calculations and perform all its obligations under the Calculation Agreement as if such BoI Life Disposal Event had not occurred; or
- (b) in the case of a BoI Life Asset Disposal Event, the person who provides covenants to BoI Life in respect of the sale covenants with the relevant Bank of Ireland Group member, in the case of a sale of the entire Dynamic Defined Block, to continue or to procure that the purchaser of the policies continues, to make the calculations and perform all its obligations under the Calculation Agreement as if it were a party thereto or, in the case of sale of part only, to provide, or to procure that the purchaser of the policies provides, BoI Life (or other competent entity within the Bank of Ireland Group) with the information necessary to enable BoI Life (or

other competent entity within the Bank of Ireland Group) to continue to make the calculations required and that BoI Life (or other competent entity within the Bank of Ireland Group) will continue to make the calculations (having obtained all the relevant data) as if such BoI Life Asset Disposal Event had not occurred.

Bank of Ireland will make certain representations and covenants in respect of itself and BoI Life to the Security Trustee (on behalf of the Secured Creditors) and Ambac. Ambac, for as long as it is the Controlling Creditor, and thereafter the Security Trustee will under the terms of the Support Agreement have the right to enforce Bank of Ireland's obligation to make payments to the Limited Partnership as described above.

Bank of Ireland, Ambac and the Security Trustee (as security trustee on behalf of the Secured Creditors) each will covenant and agree with the other that until seven Business Days following the earlier of (i) the Maturity Date and (ii) the IL Loan Account balance being reduced to zero and there being no balance on the Deficit Account, the Missed Spread Account and the Missed SLLPI EURIBOR Account (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid), it will not, except as permitted as described below initiate or join any person in initiating any Insolvency Proceedings in relation to the General Partner and/or the Limited Partnership or the appointment of an Insolvency Official in relation to the General Partner and/or the Limited Partnership or in relation to the whole or any substantial part of the undertaking or assets of the General Partner and/or the Limited Partnership.

The above will not prevent Bank of Ireland, Ambac or the Security Trustee (as security trustee on behalf of the Secured Creditors) from taking any steps against the General Partner and/or the Limited Partnership for the purpose of obtaining payment which do not amount to the initiation or the threat of initiation of Insolvency Proceedings against the General Partner and/or the Limited Partnership. Such permitted steps will include (i) the serving or notice of demand; (ii) the obtaining of a declaration or similar judgement or decree in connection with Insolvency Proceedings initiated by others; (iii) claiming or proving in connection with Insolvency Proceedings initiated by others; and (iv) claiming payment to the extent of the available funds of the General Partner and/or the Limited Partnership (including such funds as may be required to be made available to the General Partner by Bank of Ireland).

Each of Bank of Ireland and the General Partner will notify Ambac, the Security Trustee and the Note Trustee promptly upon becoming aware of the occurrence of Bank of Ireland ceasing to have the Required Ratings or a Ratings Event.

Neither the Security Trustee nor the Note Trustee will be (i) responsible for monitoring, ascertaining or establishing whether or not Bank of Ireland has the Required Ratings or (ii) liable to any person for any loss arising therefrom or from realisation or disposal of the Limited Partnership's investments (including any Permitted Investments) and reinvesting the proceeds in, or transferring the investments to, replacement Permitted Investments.

Unless and until each of the Security Trustee and the Note Trustee has actual knowledge or express notice to the contrary, it will be entitled to assume that Bank of Ireland has and continues to have the Required Ratings and that a Ratings Event has not occurred.

In the event that a Bank of Ireland Insolvency Event occurs, the Support Agreement will terminate (but such termination will not affect any obligation of Bank of Ireland which is outstanding at the date of such Bank of Ireland Insolvency Event on account of a matter which has occurred prior to that date).

Ambac will be entitled to receive, among other items, an annual certificate signed by a senior officer of Bank of Ireland confirming that the calculations made by BoI Life under the Calculation Agreement were performed by a person of appropriate seniority and expertise at BoI Life, as well as an auditors'

report deliverable within 90 days after each Annual Determination Date confirming that the movements in the balances of the Partnership Accounts were consistent with the terms of, and the payments made were correctly based on the balances of the Partnership Accounts as required in, Schedule 4 of the Limited Partnership Agreement (set out in Part C of "*Terms and Conditions of the Insurance linked Loan and Savings linked Limited Partnership Interest*" above).

The Support Agreement will be governed by English law.



## DESCRIPTION OF THE DEPOSIT AGREEMENTS

On the Closing Date the Limited Partnership and Bank of Ireland will enter into two Deposit Agreements.

Pursuant to the Floating Rate Deposit Agreement, the Deposit Bank will establish the Floating Rate Deposit Account in the name of the Limited Partnership, into which account the Limited Partnership will deposit an amount equal to the IL Loan (the "**Floating Rate Deposit**"). Interest on the Floating Rate Deposit will accrue at a floating rate equal to three-month EURIBOR (except for the first Interest Period, during which interest will accrue at a rate equal to the linear interpolation of three-month EURIBOR and four-month EURIBOR) and will be payable to the Limited Partnership on each Interest Payment Date. The General Partner will be able to draw upon the principal of the Floating Rate Deposit on any Distribution Payment Date to fund repayments of the IL Loan and any SLLPI Loan Reduction Profit Amounts.

Pursuant to the Fixed Rate Deposit Agreement, the Deposit Bank will establish the Fixed Rate Deposit Account in the name of the Limited Partnership, into which account the Limited Partnership will deposit €40,021,000 (the "**Fixed Rate Deposit**"). Interest on the Fixed Rate Deposit will accrue at a fixed rate of 4.43 per cent. *per annum* and will be payable to the Limited Partnership on each Interest Payment Date. No break costs will arise on the Fixed Rate Deposit.

Interest on the Floating Rate Deposit and the Fixed Rate Deposit will be payable without withholding or deduction for or on account of tax; if any tax is required to be withheld Bank of Ireland is required under the Support Agreement to pay such additional amount as will result in the payee receiving the amount it would have received had no such withholding or deduction been required.

The General Partner may change the Limited Partnership's investments to other Permitted Investments. The General Partner will select the relevant Permitted Investments unless Bank of Ireland's rating is below the Required Ratings and Ambac or the Security Trustee direct that the partnership invest the proceeds of realisation and other funds in replacement Permitted Investments.

The Deposit Agreements will be governed by English law.

## DESCRIPTION OF THE LIQUIDITY FACILITY AGREEMENT

*The following is a summary of the principal terms of the Liquidity Facility Agreement and is qualified by reference to the detailed provisions thereof. The following does not purport to be complete and prospective investors must refer to the Liquidity Facility Agreement for detailed information regarding the Liquidity Facility Agreement. A copy of the Liquidity Facility Agreement may be inspected at the offices of any Paying Agent and/or the registered office of the Issuer as set out under "General Information".*

The Issuer will enter into a 364-day revolving liquidity facility agreement (the "**Liquidity Facility Agreement**") and the committed facility thereunder, (the "**Liquidity Facility**") with HSBC Bank plc as Liquidity Facility Provider (the "**Liquidity Facility Provider**") pursuant to which the Issuer may in certain circumstances and subject to satisfaction of certain conditions, draw amounts (each a "**Liquidity Facility Advance**") to fund interest on the Class A-1 Notes.

Any drawing under the Liquidity Facility will be made by the Issuer Cash Manager.

On each Calculation Date, the Issuer Cash Manager will determine whether on the immediately succeeding Interest Payment Date the aggregate amount of the Issuer's obligations in respect of the items set out in Condition 3(m)(i) to (vii) of the Pre-Enforcement Priority of Payments (if the Pre-Enforcement Priority of Payments is then applicable) or Condition 3(n)(i) to (vii) of the Post-Enforcement Priority of Payments (if the Post-Enforcement Priority of Payments is then applicable), in each case treating the Liquidity Netting Amount and Liquidity Reserve Netting Amount (as defined in the terms and conditions of the Notes) as zero, will exceed the Available Funds (ignoring any amounts available under the Liquidity Facility or from the Issuer Liquidity Reserve Account and having regard to the proviso preventing application of amounts withdrawn from the Issuer Expenses Reserve Account) (such shortfall amount being an "**Available Funds Shortfall**"). If it is determined that any Available Funds Shortfall will occur, the Issuer Cash Manager will determine the amount which is the lesser of the Available Funds Shortfall and the amount of interest payable on the immediately succeeding Interest Payment Date at the items set out in Condition 3(m)(vii) of the Pre Enforcement Priority of Payments (if the Pre-Enforcement Priority of Payments is then applicable) or Condition 3(n)(vii) of the Post-Enforcement Priority of Payments (if the Post-Enforcement Priority of Payments is then applicable) (such amount being a "**Liquidity Shortfall**"). If it is determined that a Liquidity Shortfall will occur, the Issuer Cash Manager will make a drawing under the Liquidity Facility Agreement (a "**Liquidity Facility Drawing**") in an amount equal to the lower of the total amount that may be drawn down by the Issuer under the Liquidity Facility as described below and an amount equal to but not exceeding the Liquidity Shortfall and the amount drawn will form part of the Available Funds, but will be available solely for the purposes of paying interest on the Class A-1 Notes. The Issuer will be obliged to repay each Liquidity Facility Drawing on the first Interest Payment Date on which it has Available Funds sufficient to repay such drawing after payment of amounts ranking higher in the relevant Priority of Payments (in whole or in part) and on the Maturity Date. Amounts repaid may, subject to certain conditions, be redrawn.

Adjustments will be made to the amount drawn so that amounts do not need to be repaid on an Interest Payment Date if they would need to be redrawn to fund payment of interest on the Class A-1 Notes on the same Interest Payment Date.

The maximum amount available to be drawn under the Liquidity Facility is €7,000,000 (the "**Total Liquidity Facility Amount**"). The total amount that may be drawn down by the Issuer under the Liquidity Facility will be the Total Liquidity Facility Amount less the aggregate of all Liquidity Facility Advances drawn down which remain outstanding under such Liquidity Facility.

Initially, the period during which Liquidity Facility Advances may be drawn down (the "**Availability Period**") for each Liquidity Facility is 364 days. Provided that there are Class A-1 Notes outstanding, the Liquidity Facility Provider may, in accordance with the Liquidity Facility Agreement and if so

requested by the Issuer Cash Manager not more than 45 Business Days and not later than 20 Business Days before the end of the then current Availability Period, extend and renew its Liquidity Facility for an additional 364-day period.

If (a) the Liquidity Facility Provider does not extend and renew the commitment period for a further 364 days under the Liquidity Facility or (b) the senior, unsecured and unguaranteed long-term debt obligations of the Liquidity Facility Provider are rated below "A1" by Moody's or "A+" by S&P and the senior, unsecured and unguaranteed short-term debt obligations of the Liquidity Facility Provider are rated below "P-1" by Moody's or "A-1+" by S&P (the "**Liquidity Required Ratings**") (each such event a "**Liquidity Facility Relevant Event**"), and by no later than five Business Days following the occurrence of a Liquidity Facility Relevant Event the Issuer has not entered into a replacement liquidity facility agreement on substantially the same terms as such Liquidity Facility Agreement with a liquidity facility provider who satisfies the Liquidity Required Ratings (or whose guarantor or provider of credit satisfies the Liquidity Required Ratings), then the Issuer Cash Manager will be required, provided the drawing conditions are satisfied, to make a drawing (a "**Prefunded Liquidity Reserve Advance**") equal to but not exceeding the amount of the undrawn portion of the Liquidity Facility and will pay such amount into a designated bank account of the Issuer (the "**Issuer Liquidity Reserve Account**") maintained with the Issuer Account Bank or any replacement thereof with the Liquidity Required Ratings. Such monies will be subject to security in favour of the Security Trustee for the benefit of the Liquidity Facility Provider and they will be available to the Issuer solely for the purposes of payment of interest on the Class A-1 Notes and payment of amounts due to the Liquidity Facility Provider (for which purposes alone they will form part of Available Funds).

Following the service of an Enforcement Notice, each of the Issuer and the Issuer Cash Manager shall, in relation to its rights and powers under the Liquidity Facility Agreement, act solely on the instructions of the Security Trustee (itself acting on the instructions of the Controlling Creditor) and no other party unless the Security Trustee otherwise agrees.

The Liquidity Facility Provider's obligation to make each Liquidity Facility Advance and the Liquidity Facility Provider's obligation to continue its commitment to fund such advances under the Liquidity Facility Agreement are subject to certain conditions including, *inter alia*, no Guarantee Event of Default (as defined in the Liquidity Facility Agreement) having occurred and being continuing.

Interest will accrue on the principal amount outstanding under each Liquidity Facility Advance (including any Prefunded Liquidity Reserve Advance) at a floating rate of EURIBOR plus a margin of 1.00 per cent. *per annum*, and will be payable on each Interest Payment Date prior to payment of any interest due and payable in respect of the Class A-1 Notes and reimbursement of Ambac for amounts paid by it under the Ambac Financial Guarantee or the Ambac Liquidity Facility Financial Guarantee. Any interest which is accrued but unpaid on any Interest Payment Date shall accrue interest at the rate applicable to such Liquidity Facility Advance until such time as it is paid in accordance with the applicable Priority of Payments.

To the extent that additional amounts are payable by the Issuer to the Liquidity Facility Provider pursuant to the terms of the Liquidity Facility Agreement as a result of a tax deduction or increased costs, then such amounts (the "**Liquidity Facility Subordinated Amounts**") will, in accordance with the applicable Priority of Payments, rank junior to payments then due and payable in relation to the Class A-1 Notes and the Class A-2 Notes.

A commitment fee of 0.50 per cent. *per annum* on the undrawn, uncanceled amount of the Total Liquidity Facility Amount under the Liquidity Facility will be payable by the Issuer on each Interest Payment Date in accordance with the applicable Priority of Payments.

Certain of the Issuer's obligations under the Liquidity Facility Agreement (other than in respect of Liquidity Facility Subordinated Amounts but including the obligation to repay amounts standing to the

credit of the Issuer Liquidity Reserve Account) will be guaranteed by Ambac pursuant to a guarantee (the “**Ambac Liquidity Facility Financial Guarantee**”) entered into on or about the Closing Date.

## THE GENERAL PARTNER KEEPWELL AGREEMENT AND THE GP FORWARD SUBSCRIPTION AGREEMENT

### **The General Partner Keepwell Agreement**

On or before the Closing Date, Bank of Ireland as General Partner Keepwell Provider, the General Partner, Ambac and the Security Trustee will enter into a keepwell agreement (the “**General Partner Keepwell Agreement**”). In the General Partner Keepwell Agreement, Bank of Ireland will agree that if the General Partner has insufficient cash or other liquid assets to meet its payment obligations as they fall due, Bank of Ireland will make available to the General Partner, before the due date of any relevant payment obligation, funds sufficient to enable the General Partner to satisfy such payment obligations in full as they fall due. The General Partner will use the funds made available to it by Bank of Ireland under the General Partner Keepwell Agreement solely for the satisfaction when due of such payment obligations.

In the General Partner Keepwell Agreement, the General Partner will give the following covenants:

- (a) to enforce its rights under the General Partner Keepwell Agreement and the Support Agreement;
- (b) not to carry on any business other than as General Partner of the Limited Partnership and matters ancillary or incidental thereto and to use all reasonable endeavours to carry on and conduct the operation of the business of the Limited Partnership, in a proper and efficient manner and to ensure that any undertaking, scheme or enterprise to which the Limited Partnership Agreement relates is carried on and conducted in a proper and efficient manner and in accordance with the terms of the Limited Partnership Agreement;
- (c) to at all times carry on business solely in, and maintain its “centre of main interests” (as defined in Council Regulation (EC) No. 1346/2000 of 29 May 2000) in, the Cayman Islands and at no time to carry on business in the United Kingdom;
- (d) to provide to Ambac a copy of any notice which it provides to the Issuer under the Limited Partnership Agreement;
- (e) to exercise its rights and discharge its contractual duties under the Limited Partnership Agreement solely in the exercise of the business of the Limited Partnership and in the interests of the Partners and shall do so with reasonable care and in good faith;
- (f) not to withdraw any capital or profits from the Limited Partnership until seven Business Days following the earlier of (i) the IL Loan Account Balance being reduced to zero and there being no balance on the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account and (ii) the Maturity Date (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid);
- (g) insofar as permitted by applicable law, not to commence any insolvency proceedings against the Limited Partnership or otherwise to take any action for its dissolution or winding up until seven Business Days following the earlier of (i) the IL Loan Account Balance being reduced to zero and there being no balance on the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account and (ii) the Maturity Date (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid);
- (h) to transfer the investments of the Limited Partnership at the direction of Ambac (where it is Controlling Creditor) or the Security Trustee (where Ambac is not the Controlling Creditor) as soon as reasonably practicable after and in any event within 30 days of receiving such direction where Bank of Ireland ceases to have the Required Ratings pursuant to and in

accordance with the Support Agreement, and to comply with all further notices from Ambac (where it is Controlling Creditor) given pursuant to the Support Agreement or the Security Trustee (where Ambac is not the Controlling Creditor) requiring that some or all of the assets of the Limited Partnership should be realised and invested in replacement Permitted Investments under Clause 4 of the Support Agreement;

- (i) not to resign or purport to resign, as general partner of the Limited Partnership;
- (j) not, without the consent of Ambac (where it is Controlling Creditor) or the Security Trustee (where Ambac is not the Controlling Creditor), to amend, terminate, waive, assign or dispose of its rights under the Transaction Documents other than in respect of the Deposits in accordance with the Transaction Documents.

Bank of Ireland, Ambac and the Security Trustee will each covenant that, until seven Business Days following the earlier of (i) the Maturity Date (provided no IL Loan Principal Repayments, IL Loan Interest Amount or Distribution Amount due on or before such date remains unpaid) and (ii) the IL Loan Account Balance being reduced to zero and there being no balance on each of the Deficit Account, the Missed Spread Account and the Missed SLLPI EURIBOR Account (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid), it will neither take or join any person in taking steps against the General Partner for the purpose of obtaining payment of any amount due from the General Partner nor initiate or join any person in initiating any Insolvency Proceedings in relation to the General Partner or the appointment of an Insolvency Official in relation to the General Partner or in relation to the whole or any substantial part of the undertaking or assets of the General Partner. Bank of Ireland will further covenant that it will own, directly or indirectly, all of the General Partner's issued share capital and control the composition of the General Partner's board of directors for as long as the Limited Partnership is in existence.

The General Partner will agree to pay certain surveillance fees of Ambac. Ambac will also be entitled to require Bank of Ireland to procure that BoI Life provide, among other items, reports from BoI Life regarding the status of the Dynamic Defined Block covering such matters as may reasonably be specified by Ambac and to procure reasonable access to officers and employees of BoI Life to discuss calculation methodology, changes in key underlying assumptions and the general performance of the Dynamic Defined Block. In addition, in the event of a BoI Life Disposal Event or a BoI Life Asset Disposal Event, the General Partner will agree to obtain from an investment bank acceptable to Ambac (Ambac's acceptance not to be unreasonably withheld or delayed) and deliver to Ambac an opinion setting out such investment bank's view of the fairness of the terms of the sale transaction and in particular of the gross sale proceeds (before transaction expenses) and any other Economic Equivalent of Sale Proceeds realised from the transfer.

Bank of Ireland will undertake in the General Partner Keepwell Agreement that, following a BoI Life Disposal Event or a BoI Life Asset Disposal Event, it will make all commercially reasonable efforts to obtain specific performance against the purchaser or other person who gives the Post-Sale Covenant where the purchaser or such person does not comply with the Post-Sale Covenant.

**"Post-Sale Covenant"** means: (a) in the case of a BoI Life Disposal Event, a covenant to procure that BoI Life will continue to make the calculations and perform all its obligations under the Calculation Agreement as if such BoI Life Disposal Event had not occurred; and (b) in the case of a BoI Life Asset Disposal Event, a covenant to continue, or to procure that the purchaser of the policies continues, to make the calculations and perform all its obligations under the Calculation Agreement as if it were a party thereto or, in the case of sale of part only of the policies included in the Dynamic Defined Block, to provide, or to procure that the purchaser of the policies provides, BoI Life (or other competent entity within the Bank of Ireland Group) with the information necessary to enable BoI Life (or other competent entity within the Bank of Ireland Group) to continue to make the calculations required and that BoI Life (or other competent entity within the Bank of Ireland Group) will continue to make the

calculations (having obtained all the relevant data) as if such BoI Life Asset Disposal Event had not occurred.

Bank of Ireland will undertake an obligation to act in good faith to make Additional Policies available for the purposes of making additions to the Dynamic Defined Block and, in those circumstances where BoI Life sells, reinsurers, securitises or otherwise disposes of the control or economic interests in any of its policies, Bank of Ireland will covenant to ensure that BoI Life continues to calculate the Annual Recourse Cashflow Amount, Projected VIF and other relevant calculations, through either retaining the data required to calculate them or requiring a counterparty to provide such data (and such policies are serviced as if they had not been so sold, reinsured, securitised or otherwise disposed of as described above), to the extent that such policies are required, in addition to other potentially available Additional Policies, to maintain the ratio of Projected VIF to the outstanding principal balance of Notes at a level no lower than the ratio immediately prior to the relevant disposal.

#### **The GP Forward Subscription Agreement**

Bank of Ireland and the General Partner will, on or about the Closing Date, enter into a forward subscription agreement (the "**GP Forward Subscription Agreement**") pursuant to which Bank of Ireland will agree to subscribe for one or more shares in the General Partner, on the earlier of the Maturity Date and the date on which there is no longer a balance on the IL Loan Account or on any of the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account for an amount equal, to the product of 101 per cent. and the aggregate amount paid by way of distribution on the SLLPI plus interest at EURIBOR accruing on a quarterly compounding basis from the date of payment of the relevant distribution.

### **USE OF PROCEEDS**

The gross proceeds from the issuance of the Notes on the Closing Date are expected to be €400,000,000. All such proceeds will be applied by the Issuer on the Closing Date to fund the making of the IL Loan of €400,000,000.

The initial costs of establishing the transaction will be borne directly by the General Partner and will not be funded out of the proceeds of the issue of the Notes. The Issuer will not be responsible for any costs or expenses or fees incurred in relation to establishing the transaction, including in relation to the issue of the Notes.



## THE ISSUER

### General

The Issuer, Avondale Securities S.A., was incorporated on 7 September 2007 as a Luxembourg société anonyme for an unlimited period of time under the laws of the Grand Duchy of Luxembourg. The Issuer is registered with the Luxembourg Register of Commerce and Companies, with registration number B-131873. The publication of the Articles of Incorporation of the Issuer in the *Mémorial, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations* is pending.

The registered office of the Issuer is at 7, Val Ste Croix, L-1371 Luxembourg. The telephone number of the Issuer is +352 221190. The authorised share capital of the Issuer is €31,000 divided into 31 ordinary stock of €1,000 each ("Shares"). The Issuer has issued 31 Shares all of which are fully paid. The issued Shares are held directly by Stichting Caladrius ("SC").

The Issuer has been established as a special purpose vehicle. The principal activities of the Issuer are the issuance of financial instruments, the acquisition of financial assets and the entering into of other legally binding instruments. The corporate object of the Issuer is the entering into and the performance of any transactions permitted under the law of 22 March 2004 on securitisation, including, *inter alia*, the acquisition and assumption, by any means, directly or through another vehicle, of risks linked to claims, other assets, moveable or immovable, tangible or intangible, receivables or liabilities of third parties or pertaining to all or part of the activities carried out by third parties and the issuing of securities the value or return of which is dependent upon such risks as defined in the law of 22 March 2004 on securitisation.

It may in particular:

- acquire by way of subscription, purchase, exchange or in any other manner any assets, hold and dispose of any assets in any manner and/or assume risks relating to any assets;
- exercise all rights whatsoever attached to these assets and risks;
- give guarantees and/or grant security interests over its assets to the extent permitted by the law of 22 March 2004 on securitisation;
- make deposits at banks or with other depositaries;
- raise funds, issue bonds, notes and other debt securities, in order to carry out its activity within the frame of its corporate object; and
- transfer any of its assets against due consideration.

The above enumeration is not exhaustive, and is subject to the provisions of the law of 22 March 2004 on securitisation.

The Issuer may carry out any transactions, whether commercial or financial, which are directly or indirectly connected with its corporate object except for any banking activity and engage in any lawful act or activity and exercise any powers permitted for securitisation vehicles under the law of 22 March 2004 on securitisation to which the company is subject, that, in either case, are incidental to and necessary or convenient for the accomplishment of the above mentioned purposes; provided that the same are not contrary to the foregoing purposes.

### **Directors and Company Secretary**

The Directors of the Issuer are as follows:

<u>Name</u>	<u>Other Principal Activities</u>	<u>Business Address</u>
Alexis Kamarowsky	Director of Companies	7, Val Ste Croix L-1371 Luxembourg
Federigo Cannizzaro di Belmontino	Director of Companies	7, Val Ste Croix L-1371 Luxembourg
Jean-Marc Debaty	Director of Companies	7, Val Ste Croix L-1371 Luxembourg

Structured Finance Management (Luxembourg) S.A., with its registered office at 7, Val Ste Croix, L-1371 Luxembourg, has been appointed as domiciliation agent for the Issuer. Its duties include the provision of certain administrative, accounting and related services.

### **Financial Statements**

The Issuer intends to publish its first financial statements in respect of the period ending on 31 December 2007. The Issuer will not prepare interim financial statements.

The auditors of the Issuer are PricewaterhouseCoopers SARL of L100, Route d'Esch, B.P. 1443, L-1014 Luxembourg, chartered accountants (*Reviseur d'Entreprises*) and members of the *Institut des Reviseurs d'Entreprises* and are qualified to practise as auditors in Luxembourg.

## THE LIMITED PARTNERSHIP

### Introduction

BOI VIF Funding (No. 1) LP (the "**Limited Partnership**") was registered (registration no. LP12456) in England and Wales on 14 September 2007 under the Limited Partnerships Act 1907, with Openmulti Limited as the initial general partner (the "**Initial General Partner**") and College Green Limited as the initial limited partner (the "**Initial Limited Partner**" and together with the Savings-linked Limited Partner, the "**Limited Partners**"; the Limited Partners together with the General Partner, the "**Partners**"). The Initial General Partner and the Initial Limited Partner entered into a limited partnership agreement on 14 September 2007 (as the same has been amended, the "**Limited Partnership Agreement**") for the purpose of establishing the business of raising capital and investing in accordance with the terms of the Limited Partnership Agreement. The Limited Partnership is not a legal entity separate from its partners and has no subsidiaries.

Prior to the Closing Date the Initial General Partner assigned its general partnership rights and obligations to Vida Pura Limited who became the new general partner (the "**General Partner**").

On the Closing Date the Issuer will subscribe for the Savings-linked Limited Partnership Interest and make the IL Loan to the Limited Partnership under the Insurance-linked Loan.

The General Partner will be the sole general partner of the Limited Partnership and, as such, will manage the Limited Partnership (subject to the appointment of an administrator, cash manager or other agents to assist it in performing certain of its duties, as described below).

Provided that they do not take part in the management of the Limited Partnership, and subject to compliance with the provisions of the Act, the liability of persons registered as limited partners of the Limited Partnership pursuant to the Act for the debts or obligations of the limited partnership will be limited to the amount of partnership capital which they have contributed or agreed to contribute to the partnership.

No financial statements of the Limited Partnership have been prepared. The first financial statements of the Limited Partnership are expected to be prepared for the period ending on 31 March 2008. Thereafter, it is intended that the Limited Partnership will prepare audited annual financial statements. It is not intended that the Limited Partnership will publish interim financial statements.

### Activity

The business of the Limited Partnership is generally to raise and provide finance and financial support to Bank of Ireland and its group. It will hold assets falling within the definition of "Permitted Investments", which definition will expand if Bank of Ireland ceases to have the Required Ratings and a Downgrade Direction Notice is served (a) by Ambac (if it is then the Controlling Creditor) or (b) the Security Trustee (if Ambac is then not the Controlling Creditor) either in accordance with the Deposits Policy (if the Permitted Investments were deposits) or acting on the instructions of the Note Trustee with the sanction of holders of not less than 25 per cent. in aggregate of the principal amount of the Most Senior Class or an Extraordinary Resolution of holders of the Most Senior Class), with a view to investing in assets intended to generate income in excess of expenditure, thereby enabling it to distribute profits to the General Partner and Limited Partners in accordance with the terms of the Limited Partnership Agreement. In carrying on such business, the Limited Partnership will, *inter alia*, (a) acquire and hold the Deposits and any replacement Permitted Investments; (b) provide finance and financial support to Bank of Ireland or any company which is a member of the group of companies of which Bank of Ireland is a member or, if Bank of Ireland ceases to have the Required Ratings, to acquire and hold assets of third parties in accordance with the terms of the Limited Partnership Agreement; (c) monitor the assets of the Limited Partnership (the "**Partnership Assets**") (being initially the Deposits) and dispose and/or replace them in accordance with the terms of the Limited

Partnership Agreement; and (d) in accordance with the Limited Partnership Agreement and the other Transaction Documents enter into and perform (through the General Partner) any contracts and agreements (including the IL Loan), and carry on any other activities as may in the reasonable opinion of the General Partner be necessary or advisable for the accomplishment of the foregoing purposes and the performance of the Limited Partnership Agreement and the other Transaction Documents to which the Limited Partnership is a party.

The Limited Partnership has carried out no operations since its registration other than in relation to the creation of the Limited Partnership Interests and investment of the capital contributions of €10,000 by each of the Initial General Partner and the Initial Limited Partner. The advance to be made under the IL Loan on the Closing Date and the dividend payment on or before the Closing Date on the non-voting share in Bol Insurance Limited will initially be used by the Limited Partnership, together with the other resources of the Limited Partnership, to make the Floating Rate Deposit and the Fixed Rate Deposit with Bank of Ireland, United Kingdom branch.

### **Administration**

The Limited Partnership will be operated by or on behalf of the General Partner outside the United Kingdom. The principal place of business of the General Partner is 3rd Floor Zephyr House, 122 Mary Street, P.O. Box 715, KY1-1107, Grand Cayman, Cayman Islands; the telephone number is +1 345 769 9350. The registered office of the General Partner and the principal place of business of the Limited Partnership is c/o M&C Corporate Services, P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. Neither the Initial Limited Partner nor the Issuer may take part in the management of the Limited Partnership.

The Limited Partnership Agreement provides that all of the Limited Partnership's business and affairs will be conducted by the General Partner (save to the extent any activities are carried out in the United Kingdom, which will be required to be performed by an administrator with the requisite permissions under the FSMA). The General Partner has all rights and powers required or appropriate to manage and operate the Limited Partnership and to do all things necessary to carry out the purposes of the Limited Partnership (in each case subject to the terms of the Transaction Documents). These include, *inter alia*, the power and authority to (a) monitor and dispose of and/or replace the Partnership Assets in such manner and at such times in accordance with the Limited Partnership Agreement; (b) agree to any amendment to the terms and conditions of the Partnership Assets which is not materially prejudicial to the interests of the Savings-linked Limited Partner or the IL Lender provided that no amendment shall be made to the terms and conditions of any Partnership Asset which would cause such Partnership Asset to cease to constitute a Permitted Investment; (c) provide administration, financial and business planning services to the Limited Partnership; (d) make, or cause to be made, periodic reports relating to operating results, valuations and Partnership Account balances as required by the Limited Partnership Agreement; (e) employ from time to time third parties to render services to the Limited Partnership, including but not limited to lawyers, investment brokers or finders, investment bankers, actuaries and accountants (including lawyers, actuaries and accountants who may also act as lawyers and accountants for Bank of Ireland or any member of the Group); and (f) exercise all of the rights and powers provided by the Act to a general partner in a limited partnership, except to the extent that any of the rights may be expressly limited or expressly restricted by the Limited Partnership Agreement or by the Act, provided that, in each case, such exercise of the General Partner's rights does not adversely affect the interests of the Limited Partners.

The General Partner has agreed that it will at all times maintain sole ownership, whether directly or indirectly, of its general partner interest in the Limited Partnership, subject to the terms of the Limited Partnership Agreement. The General Partner will have unlimited liability for the debts and obligations of the Limited Partnership to the extent that these cannot be satisfied out of partnership assets.

### **Distribution of Profits and Losses**

The rights of the Issuer as Savings-linked Limited Partner to share in the profits of the Limited Partnership or otherwise to participate in the Partnership Assets and to be returned any part of its capital contribution (and any other profit) on dissolution of the Limited Partnership are limited to the rights of distribution and rights to liquidation distributions on dissolution of the Limited Partnership as set out in the terms and conditions of the SLLPI. (See further “*Terms and Conditions of the Insurance-linked Loan and Savings-linked Limited Partnership Interest – Terms of the Savings-Linked Limited Partnership Interest*” above.)

The Initial Limited Partner will be entitled to a share in the profits and losses of the Partnership Assets, calculated after making any distributions on the SLLPI, as well as to a return of its capital contribution (after taking account its *pro rata* share of any losses) on dissolution of the Limited Partnership, subject to a cap on aggregate profits equal to its initial capital contribution of €10,000, such amount being retained by the Limited Partnership until the seventh Business Day following the earlier of (i) the Maturity Date and (ii) the date on which the IL Loan Account Balance is reduced to zero and no amounts stand to the credit of the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid).

The General Partner will be entitled to allocation of the profits of the Limited Partnership after payment of amounts payable to the Limited Partners, and, on dissolution, to payment of the proceeds of realising the Partnership Assets after all creditors (including the Lender under the IL Loan) have been paid in accordance with the terms of their respective Agreement (including in the case of the Lender, the terms of the IL Loan) and all distributions to be made to the Limited Partners have been made. The General Partner has agreed, however, that until the seventh Business Day following the earlier of (i) each of the IL Loan Account, the Deficit Account, the Missed Spread Account and the Missed SLLPI EURIBOR Account having a zero balance and all amounts due on the IL Loan and distribution due on the SLLPI Loans having been paid and (ii) the Distribution Payment Date falling in July 2032, all profits and gains will be retained in the Limited Partnership (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid).

### **Indebtedness**

The General Partner has covenanted, *inter alia*, that it will not incur any indebtedness in the name of the Limited Partnership other than the entry into the IL Loan and the costs and expenses incidental to creating the Limited Partnership Interests and the IL Loan and the Limited Partnership performing its obligations in respect of the Limited Partnership Agreement, maintaining the Limited Partnership’s holding of the Partnership Assets and any other securities acquired with any other capital contributions to the Limited Partnership, the exercise of the Limited Partnership’s rights in respect of the Partnership Assets and any other securities acquired with any other capital contributions to the Limited Partnership and the administration of the Limited Partnership.

### **Dissolution**

If the Limited Partnership is dissolved, the Limited Partnership Agreement provides that the General Partner will only be entitled to any assets of the Limited Partnership remaining after (i) all debts and other liabilities of the Limited Partnership (including the IL Loan) have been satisfied in accordance with their terms and (ii) the full amount to which the Savings-linked Limited Partner is entitled and all other amounts to which the holders of any other partnership interests are entitled have been paid to such holders.

The Limited Partnership Agreement provides that: (a) no Partner shall have the right to cause the dissolution of the Limited Partnership by notice; (b) the Limited Partnership will not be dissolved or terminated by the incapacity of any Limited Partner, the assignment or transfer by any Limited Partner

of its Limited Partnership Interests or the admission of a new or substituted General Partner or Limited Partner; (c) each Partner agrees that it will not, to the fullest extent permitted by applicable law, exercise any right to seek the dissolution of the Limited Partnership or retire from the Limited Partnership at any time while the IL Loan is outstanding or there is any balance on any of the Deficit Account, the Missed Spread Account or the Missed SLLPI EURIBOR Account; and (d) each Partner will agree no further capital contributions are required to be made by the Limited Partners.

The Limited Partnership will be dissolved and the Partnership Assets distributed in the manner provided for in the Limited Partnership Agreement if certain events occur. These are (a) an order being made for the dissolution, liquidation or winding up of the General Partner, (b) a special resolution of the General Partner being passed for its winding up (other than in circumstances where the business of the General Partner has been transferred), (c) an order for dissolution being made by an English Court (under Section 35 of the Partnership Act 1890), (d) there not being at least one general partner and at least one limited partner for the purposes of the Act and (e) the General Partner giving notice of termination following the seventh Business Day following the earlier of (i) there being no balance on any of the IL Loan Account, the Deficit Account, the Missed Spread Account and the Missed SLLPI EURIBOR Account and all Distribution Amounts and amounts payable on the SLLPI and IL Loan having been paid and (ii) the Distribution Payment Date falling in July 2032 (provided in either case that no amount payable on the IL Loan or the SLLPI remains unpaid).

#### **Capitalisation**

In addition to the initial capital contribution of €10,000 by the Initial General Partner, an initial capital contribution of €10,000 was made by the Initial Limited Partner and the capital contribution of €1,000 will be made by the Savings-linked Limited Partner. The General Partner may make additional capital contributions to the Limited Partnership in accordance with the provisions of the Limited Partnership Agreement. The IL Loan of €400,000,000 is a loan to the Limited Partnership and not a contribution of capital.

The Limited Partnership has also acquired a single-purpose dividend access share in BoI Insurance Limited, a wholly-owned subsidiary of Bank of Ireland located on the Isle of Man. A dividend on this share will be paid on or before the Closing Date to the Limited Partnership in the amount of €40,000,000.

#### **Litigation**

The Limited Partnership is not involved, and has not been involved, in any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which the Limited Partnership is aware) which may have or have had since the date of its incorporation a significant effect on the Limited Partnership's financial position.

## THE GENERAL PARTNER

### General

The General Partner was incorporated in the Cayman Islands as a company with limited liability on 24 September 2007, with registration number 195256 under the name Vida Pura Limited.

The registered office of the General Partner is c/o Maples Finance Limited, PO Box 1093GT, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands. The telephone number of the General Partner is +1 345 769 9350. The authorised share capital of the General Partner is €25,000 divided into 25,000 ordinary shares of €1 each ("Shares"). The General Partner has issued one Share, which is fully paid. The issued Share is held directly or indirectly by Bank of Ireland.

The General Partner has been established as a special purpose vehicle. The principal activity of the General Partner is to act as the general partner of the Limited Partnership. There has been no significant change in the financial or trading position of the General Partner since its incorporation on 24 September 2007.

### Directors and Company Secretary

The Directors of the General Partner are as follows:

<u>Name</u>	<u>Other Principal Activities</u>	<u>Business Address</u>
Andrew Galloway	Director, ICG Management Limited	3rd Floor Zephyr House, 122 Mary Street, P.O. Box 715, KY1-1107, Grand Cayman, Cayman Islands
Ralph Woodford	Director, ICG Management Limited	3rd Floor Zephyr House, 122 Mary Street, P.O. Box 715, KY1-1107, Grand Cayman, Cayman Islands
Greg Link	Director, Avalon Management Limited	3rd Floor Zephyr House, 122 Mary Street, P.O. Box 715, KY1-1107, Grand Cayman, Cayman Islands
Sean Patrick Casey	Finance Director and Appointed Actuary, Bank of Ireland Life	Bank of Ireland Life, 11/12 Dawson Street, Dublin 2, Ireland
Lewis E. Love, Jr.	Group Head of Asset and Liability Management, Bank of Ireland	Bank of Ireland, Lower Baggot Street, Dublin 2, Ireland

The Company Secretary is Maples Secretaries Limited.

ICG Management Limited of 3rd Floor Zephyr House, 122 Mary Street, P.O. Box 715, KY1-1107, Grand Cayman, Cayman Islands, is the administrator of the General Partner. Its duties include the provision of certain administrative, accounting and related services.

### Financial Statements

The General Partner intends to publish its first financial statements in respect of the period ending on 31 March 2008. The General Partner will not prepare interim financial statements.

The auditors of the General Partner are PricewaterhouseCoopers of One Spencer Dock, North Wall Quay, Dublin 1, Ireland, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland.

**Litigation**

The General Partner is not involved, and has not been involved, in any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which the General Partner is aware) which may have or have had since the date of its incorporation a significant effect on the General Partner's financial position.



## **BANK OF IRELAND**

### **Business**

The Governor and Company of the Bank of Ireland (the “**Bank**”) is the parent of a group of subsidiary companies (together with the Bank, the “**Bank of Ireland Group**”) operating in the financial services sector. The principal subsidiary companies are described below.

The Bank was incorporated by Royal Charter of King George III in 1783. The Bank of Ireland Group had total assets of €189 billion at 31 March 2007.

At 31 March 2007, the Bank operated 295 full-time retail bank branches of which 251 were in Ireland and 44 in Northern Ireland. There are no full service retail bank branches in Great Britain.

In addition to its retail and corporate banking business, the Bank has a funds management business, Bank of Ireland Asset Management Limited, and a corporate finance company, IBI Corporate Finance Limited. The Bank also has a life assurance business in Ireland, Bank of Ireland Life Holding plc. Other subsidiaries include home mortgage businesses in Ireland (ICS Building Society and Bank of Ireland Mortgage Bank) and Great Britain (Bank of Ireland Home Mortgages Limited and Bristol & West plc). In respect of Bristol & West plc, the High Court of Justice in London has approved the application to transfer its business to the United Kingdom branch of the Bank, pursuant to a banking business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (“**Scheme**”). The Scheme took effect on 1 October 2007. Also, as of 1 October 2007, the Bank took the mortgage book and business of its subsidiary, Bank of Ireland Home Mortgages Limited, onto its own balance sheet pursuant to a business sales agreement.

The Bank of Ireland Group’s international business is directed from Dublin. In addition, the Bank has branches in Paris, Frankfurt and Connecticut. It has a representative office in California. It also provides fund management services through Bank of Ireland Asset Management (U.S.) Limited, Iridian Asset Management, through its subsidiary Guggenheim Alternative Asset Management (in which it holds a 71.5 per cent. interest) and through Bank of Ireland Asset Management in Australia, Japan and the UK. The Bank, through a joint venture with US private equity specialist Paul Capital Partners, provides private equity fund of funds products and advisory services to institutional and other investors.

### **Bank of Ireland Group**

The Bank is the holding company of all of the companies in its Bank of Ireland Group. It also engages in business in its own right. Its assets therefore comprise both of shares in those companies, and assets and liabilities acquired in the conduct of its own business. It is thus partly dependent on the members of the Bank of Ireland Group and the revenues received by them.

The Bank provides, by itself or through its wholly owned subsidiaries, a full range of financial services in the personal, commercial, industrial and agricultural sectors in Ireland. These include current and deposit accounts, term deposits and certificates of deposit, overdrafts, term loans, mortgages, currency loans, leasing, instalment credit, hire purchase, debt factoring, foreign exchange facilities, executor and trustee and taxation services, investment management, and advice on a range of financial matters, including mergers and acquisitions and underwriting services.

### **Competition**

The Bank of Ireland Group faces strong competition in all of its major markets. Other financial services groups, including local banks and domestic and foreign financial services companies, compete for business in these markets.

### ***Ireland and Northern Ireland***

The Bank of Ireland Group provides a full range of banking services in Ireland and Northern Ireland. It is subject to strong competition from various types of institutions in the financial services sector. The main competition across the full range of banking activity is from other banks, in particular Allied Irish Banks plc, Ulster Bank Ireland Limited (in Ireland), Ulster Bank Ltd (in Northern Ireland) and HBOS plc (in both Ireland and Northern Ireland), National Irish Bank Ltd (in Ireland), Northern Bank Ltd (in Northern Ireland) and Irish Life and Permanent plc (in Ireland).

Allied Irish Banks plc (which trades as First Trust Bank in Northern Ireland) and Irish Life and Permanent plc have their Head Offices in Dublin. Ulster Bank Ireland Limited is a subsidiary of Ulster Bank Ltd which is a subsidiary of The Royal Bank of Scotland Group plc and Northern Bank Ltd and National Irish Bank Ltd are subsidiaries of Danske Bank A/S.

The Bank of Ireland Group also competes in the corporate and investment banking services areas with a range of other domestic and foreign banks. There is also competition from the building societies, the Irish Post Office, which has recently entered into a joint venture with Fortis Bank, credit unions and national savings organisations in both Ireland and Northern Ireland.

The general competitive environment in Ireland is subject to the operation of the Competition Act 2002 (as amended), and in the UK (including Northern Ireland) the Competition Act 1998, both of which are modelled closely on Articles 81 and 82 of the EC Treaty, and EC Directive 89/646 of 15th December, 1989 (as amended, known as the "Second Banking Coordination Directive"), which permits in Ireland and the UK (including Northern Ireland) the establishment of branches and the provision of cross border services by banks headquartered elsewhere in the European Union.

### ***Great Britain***

The Bank of Ireland Group's operations in Great Britain focus on specific business niches, in particular business banking, mortgage lending and retail financial services (the latter through a joint venture with the UK Post Office). Great Britain has a very highly competitive and sophisticated financial market with over 500 licensed banking institutions with extensive retail networks. In addition, there are approximately 80 building societies, and the major insurance companies, which also operate nationwide branch networks.

In Great Britain, the Bank of Ireland Group's principal competitors include, in addition to building societies, other providers of personal and commercial financial services, such as banks and insurance companies. Each of these types of financial service providers has expanded the range of services offered in recent years.

### ***Inquiries***

On 26 May 2005 the Office of Fair Trading ("OFT") in the UK announced that it had referred the market for personal current account banking services in Northern Ireland to the Competition Commission ("CC") for further investigation, under section 131 of the Enterprise Act 2002.

The CC invited evidence from all interested parties and published an "Emerging Thinking" document (together with related working papers) on 28 April 2006 on the basis of the evidence examined to that date by the CC. The CC invited comments both on the Emerging Thinking document and on the working papers from all interested parties. The Bank provided its response to the CC on 19 May 2006. Further information was sought by the CC and its "Provisional Findings" report was published on 20 October 2006. In addition, provisional decisions on remedies were published on 6 March 2007. The Bank responded to both of these documents and a Final Report was issued on 16 May 2007. Further information is available from [www.competition-commission.org.uk](http://www.competition-commission.org.uk).

Amongst the CC's other current inquiries are investigations into Rolling Stock Leasing Market, Payment Protection Insurance and Home Credit. Further details are available on the Commission's website, [www.competition-commission.org.uk](http://www.competition-commission.org.uk).

The OFT also investigates issues in the UK from competition, consumer protection and other perspectives. On 29 March 2007 it announced an investigation of retail bank pricing in the UK. Details of this and other OFT investigations are available on the OFT's website, [www.of.gov.uk](http://www.of.gov.uk).

The EU Commission announced on 13th June 2005 that it had decided to commence two Sector Inquiries under Article 17 of Council Regulation (EC) No 1/2003 in the financial services sector relating to:

- retail banking; and
- business insurance.

These Inquiries have been carried out in close co-operation with credit institutions, financial institutions, other institutions providing retail banking services and products, including providers of payment services, as well as providers of infrastructure and upstream services, insurance companies, financial services intermediaries, users of financial services, including consumer organisations, where appropriate, industry associations, governments and national competition authorities. The EU Commission addressed questionnaires to interested parties and published Interim Report I on Payment Cards on 12 April 2006 and Interim Report II on Current Accounts and Related Services on 17 July 2006. The EU Commission published its Final Report on Retail Banking on 31 January 2007. Further information is available from

[http://ec.europa.eu/comm/competition/antitrust/others/sector\\_inquiries/financial\\_services/](http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/financial_services/).

#### **Recent Developments**

In July 2007 Bank of Ireland issued \$600,000,000 Subordinated Floating Rate Notes due 2018.

In March 2007 the Bank of Ireland Group issued €2.9 billion of residential mortgage backed notes based on the mortgages of ICS Building Society. In March 2007 the Bank of Ireland Group issued GBP 5.5 billion of residential mortgage backed notes originated by Bristol & West plc.

On 31 October 2006 the Bank of Ireland Group sold its stockbroking subsidiary, J&E Davy stockbrokers, for €316.55 million.

On 18 September 2007 the High Court of Justice in London approved the application for the transfer of the business of Bristol & West plc to the United Kingdom branch of the Bank, pursuant to a banking business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the "Scheme"). The Scheme took effect on 1 October 2007.

#### **Capitalisation of the Bank of Ireland Group**

The following table and notes thereto sets out the consolidated capital stock in issue of the Bank of Ireland Group as at 31 March 2007 extracted without material adjustment from the audited consolidated financial statements at 31 March 2007.

*Consolidated Capitalisation of the Group*

*As at 31st  
March,  
2007  
(€ millions)*

**Capital Stock**

**Authorised**

1,500m units of €0.64 of Ordinary Stock .....	960
8m units of Non-Cumulative Preference Stock of US\$25 each .....	150
100m units of Non-Cumulative Preference Stock of Stg £1 each .....	147
100m units of Non-Cumulative Preference Stock of €1.27 each .....	127
100m units of Undesignated Preference Stock of US\$0.25 each .....	19
100m units of Undesignated Preference Stock of Stg£0.25 each .....	37
100m units of Undesignated Preference Stock of €0.25 each .....	25
	<hr/>
	1,465

**Allotted and fully paid**

955.4m units of €0.64 of Ordinary Stock .....	611
70.2m units of €0.64 of Treasury Stock .....	45
1.9m units of Non-Cumulative Preference Stock of Stg£1 each .....	3
3.0m units of Non-Cumulative Preference Stock of €1.27 each .....	4
	<hr/>
	663

The weighted average Ordinary Stock in issue at 31st March 2007, used in the earnings per unit of Ordinary Stock calculation, excludes the Treasury Stock which does not represent Ordinary Stock in issue. Treasury shares do not rank for dividend and while own shares held for the benefit of life assurance policyholders legally rank for dividend they do not accrue in the Group financial statements.

Notes:

- (1) Please refer to Note 38(b), (c) and (d) to the consolidated financial statements for the financial year ended 31st March 2007.
- (2) All of the above stock issue and stock option schemes are subject to a range of flow rate controls approved by the stockholders and which conform to current institutional investor guidelines.
- (3) The euro figures shown have been translated from U.S. dollars and pounds sterling using the closing rates of exchange prevailing on 31st March 2007, which were: €1=U.S.\$1.3318, €1=£0.6798.

**Court of Directors**

The business address of the Court of Directors is Bank of Ireland, Head Office, Lower Baggot Street, Dublin 2, Ireland.

<u>Name</u>	<u>Function within the Group</u>	<u>Principal Outside Activities</u>
Richard Burrows	Governor	A director of Pernod Ricard S.A. and of Cityjet Ltd.
George Magan	Deputy Governor	Chairman of Babcock & Brown Global Partners, Chairman, Carlton Capital Partners, Chairman, Mallet plc, Chairman, Morgan Shipley (Dubai).
Brian J Goggin	Group Chief Executive	President, Irish Chapter, The Ireland U.S. Council, Global Councillor of the conference Board.

<i>Name</i>	<i>Function within the Group</i>	<i>Principal Outside Activities</i>
David Dilger* CBE	Non-Executive Director	Chief Executive Officer of Greencore Group plc.
Paul Haran	Non-Executive Director	Chairman of the National Qualifications Authority of Ireland, Edward Dillon & Company, UCD Michael Smurfit School of Business and Principal, UCD College of Business & Law. Member of the Forum of the Economic and Social Research Institute, council member of the Irish Management Institute and member of the Road Safety Authority. Director of Glanbia plc and the Mater Private Hospital.
Dennis Holt*	Non-Executive Director	Chairman Designate, Liverpool Victoria Friendly Society Ltd and Director, Saga Services Ltd and British Islamic Insurance Holdings Ltd.
Rose Hynes	Non-Executive Director	Director of Bank of Ireland Mortgage Bank, Bord Gáis Éireann, Shannon Airport Authority, Northern Ireland Water Ltd and a number of other companies. She is also a director of Total Produce plc, where she chairs its Compensation Committee and is a member of its Audit Committee. Rose is an associate of the Irish Institute of Taxation and of the Chartered Institute of Arbitrators.
Jerome Kennedy	Non-Executive Director	Director of Bank of Ireland Life Holdings plc, New Ireland Assurance Company plc and Total Produce plc, where he chairs the Audit Committee. He is Chairman of Caulfield McCarthy Group Retail and a member of the Irish Board of the UCD Michael Smurfit School of Business. He currently acts as a strategic business adviser to a number of Irish businesses and is a member of the Audit Committee Institute.
Declan McCourt*	Non-Executive Director	Chief Executive of automotive distributor, the OHM Group, a Director of Fyffes plc, Blackrock International Land plc, Dublin

<i>Name</i>	<i>Function within the Group</i>	<i>Principal Outside Activities</i>
		Docklands Development Authority and a number of other companies. Chairman of the Mater Hospital Foundation and of UCD Law School Development Council.
Heather Ann McSharry	Non-Executive Director	General Manager of Reckitt Benckiser in Ireland. Director of Enterprise Ireland, Irish Pharmaceutical Healthcare Association, and a member of the Governing Authority of UCD.
Terry Neill*	Non-Executive Director	Member of the Governing Body and chairman of the Finance Committee of London Business School. Member of the Boards of CRH plc and Trinity Foundation. Chairman of Meridea Oy and Camerata Ireland.
John O'Donovan	Group Chief Financial Officer	
Des Crowley	Chief Executive UK Financial Services	Chairman of the Board of the UK Post Office joint venture and Director of Bristol & West plc.
Richie Boucher	Chief Executive, Retail Financial Services Ireland	President of the Irish Banking Federation, Vice-President of the Institute of Bankers in Ireland and member of the boards of Bank of Ireland Life Holdings plc, New Ireland Assurance Company plc, Bank of Ireland Mortgage Bank and ICS Building Society.
Denis Donovan	Chief Executive, Capital Markets	

\* Audit committee member

#### **Conflicts of interest**

The Bank is not aware of any potential conflicts of interest between the duties to the Bank of the persons listed under "Court of Directors" above and their private interests or other duties.

#### **Corporate Governance**

The Court of Directors is accountable to stockholders for the overall direction and control of the Bank of Ireland Group. It is committed to high standards of governance designed to achieve enhanced shareholder value, sustained business growth and protection of the interests of customers, employees and other stakeholders while promoting the highest standards of integrity, transparency and accountability.

A key objective of the Bank's governance framework is to ensure compliance with applicable legal and regulatory requirements and with best governance practice as set out in "The Combined Code on Corporate Governance" (the "Combined Code"). The Directors believe that the Bank of Ireland Group has delivered on these objectives and expect it to continue to do so. Specifically, the Bank of Ireland Group has complied with the provisions of the Combined Code throughout financial year 2006/2007 except for the fact that three of the Court's then 14 Directors were unable to attend the Annual General Court in July 2006 and the Governor is a member of the Bank of Ireland Group Remuneration Committee.

The Court welcomes the publication in June 2006 of the updated version of the Combined Code which, among other things, allows the company chairman to sit on the remuneration committee. Though disclosure reporting on the updated version is not required in respect of year ended 31 March 2007, the Court is satisfied that it already complies with the principles.

#### **Audit Committee and Auditors**

The Bank of Ireland Group Audit Committee comprises only independent non-executive Directors, at least one of whom the Court of Directors has determined has recent and relevant financial experience. It assists the Court of Directors in fulfilling its responsibilities relating to:

- the integrity of the financial statements and any related formal announcements;
- overseeing the relationship between the Bank of Ireland Group and its external auditors;
- the review of the Bank of Ireland Group's internal controls, including financial controls;
- the effectiveness of the internal audit, compliance and risk management functions;
- the review of the internal and external audit plans and subsequent findings;
- the selection of accounting policies;
- the review of the auditors' report;
- obligations under applicable laws and regulations including the Sarbanes - Oxley Act of 2002; and
- the review of the effectiveness of the services provided by the external auditors and other related matters.

The Committee has conducted a formal evaluation of the effectiveness of the external audit process and has reported on its findings to the Court of Directors. It conducts an annual review of the procedures and processes by which non-audit services are provided by the external auditors in order to ensure, among other things, that auditor objectivity and independence are not compromised. In this regard, a key procedural control requires that any engagement of the external auditors to provide non-audit services must be pre-approved by the Committee, which also receives reports on the performance of such services.

#### **Financial Highlights of the Bank of Ireland Group**

The financial information set forth below as at and for the two years ended 31 March 2007 has been extracted without material adjustment from the Report and Accounts of the Bank of Ireland Group for the year ended 31 March 2007.

	<i>2007IFR</i> <i>S€m</i>	<i>2006IFRS*</i> <i>Restated€m</i>
<b>Income statements</b>		
Profit before taxation.....	1,958	1,524
Profit after taxation.....	1,652	1,221
Earnings per unit of €0.64 Ordinary Stock.....	172.2c	128.5c
Dividends per unit of €0.64 Ordinary Stock (net).....	60.4c	52.5c
<b>Balance sheets</b>		
Minority interests .....	34	45
Subordinated liabilities.....	7,808	6,493
Total equity .....	6,758	5,231
Total assets .....	188,813	162,212
<b>Operating ratios</b> .....		
Net interest margin .....	1.77	1.79
<b>Asset quality</b>		
Annual provisions/average loans .....	0.09	0.11
<b>Capital adequacy ratios</b>		
Tier 1 capital .....	8.2	7.5
Total capital.....	11.8	11.4

\* Restated due to change in accounting policy.

The summary information above does not constitute the full accounts of the Bank of Ireland Group, copies of which are required to be annexed to the Bank of Ireland Group's annual return to the Registrar of Companies in Ireland. Copies of the accounts in respect of the financial period ended on 31 March 2007 have been so annexed. The Bank's auditors, PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, Dublin have reported under section 193 of the Companies Act, 1990 of Ireland in respect of the accounts for the periods ended 31 March 2006 to 31 March 2007 (inclusive) without qualification.

#### Listings

Securities issued by Bank of Ireland are listed on the Channel Islands Stock Exchange, Eurolist by Euronext (Amsterdam), the Irish Stock Exchange, the London Stock Exchange and the New York Stock Exchange.

#### Litigation

There are no, nor have there been any governmental, legal or arbitration proceedings involving the Bank or the Bank of Ireland Group which may have or have had during the 12 months prior to the date hereof a significant effect on the financial position or profitability of the Bank of Ireland Group taken as a whole, nor, so far as the Bank is aware are there any such proceedings pending or threatened involving the Bank of Ireland Group.

#### No Material Change

Save as disclosed in this Prospectus, there has been no significant change in the financial or trading position of the Bank of Ireland Group taken as a whole and there has been no material adverse change in the financial position or prospects of the Bank of Ireland Group taken as a whole since 31 March 2007.



## **BANK OF IRELAND LIFE**

New Ireland Assurance Company plc, trading as Bank of Ireland Life (“**BoI Life**”), is a wholly owned Irish subsidiary within the Bank of Ireland Group. BoI Life provides life and pensions products, which are distributed both through bank branches throughout the country, and through the independent intermediary market and a direct sales force. The Bank Channel business was initially established as Lifetime Assurance in 1987 and was the first bancassurance company in Ireland. In 1997 the Bank of Ireland Group acquired New Ireland Assurance Company plc and in 2002 the business of Lifetime Assurance was transferred to New Ireland Assurance Company plc. BoI Life provides financial protection products for death and/or serious illness, retirement planning services and equity-based and property-based investment products.

BoI Life is a core business of the Bank of Ireland Group. BoI Life is part of Bank of Ireland’s Retail Financial Services Division in Ireland and has performed very successfully for the Bank of Ireland Group in the wealth management arena.

BoI Life writes primarily unit-linked business, with in excess of 95 per cent. of new business on an annual premium equivalent basis in 2006 being unit-linked. The non-unit-linked business consists primarily of guaranteed term and mortgage protection assurances, of which 90 per cent. of the life benefits and 75 per cent. of the critical illness benefits are fully reinsured.

BoI Life is one of the leading life assurance companies in Ireland. It had a 26 per cent. market share of new business in Ireland in 2006 and earned new premium income in excess of €3 billion in 2006. At year-end 2006 its funds under management were €14 billion. BoI Life had available assets of €421 million to cover the statutory solvency margin of €161 million, representing cover of 2.6 times, at December 2006.

## AMBAC ASSURANCE UK LIMITED

### General

Ambac Assurance UK Limited (“**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, and remains exclusively involved in those lines of business. Ambac is also licensed to offer those insurance services into a number of other European Union countries on a freedom of services basis, and has a recently opened branch office in Milan, Italy. Ambac is authorised and regulated by the Financial Services Authority (“**FSA**”) of the United Kingdom. Ambac's registered office is located at Level 7, 6 Broadgate, London EC2M 2QS, United Kingdom (telephone (44) (0)20 7786 4300). Ambac has no subsidiaries. Ambac's legal and commercial name is Ambac Assurance UK Limited.

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. Each of Ambac and Ambac Assurance is part of the Ambac Financial Group, Inc. group of companies (see “*Ambac Assurance Corporation*” below).

Ambac is dependent on Ambac Assurance in that Ambac Assurance supports Ambac through certain contractual arrangements (as described in “*Relationship Between Ambac Assurance UK Limited and Ambac Assurance Corporation*” below).

### Ratings

Ambac has obtained “AAA/Aaa/AAA” financial strength ratings from Standard & Poor's Ratings Services, Moody's Investors Service, Inc., and Fitch, Inc.

### Information

Copies of the annual regulatory return filed by Ambac with the 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 at Ambac Financial Group Inc.'s website at [www.ambac.com](http://www.ambac.com) or 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 31 December 2006, the date as at which its latest audited accounts were prepared, Ambac has continued to conduct its insurance business in the United Kingdom and the other European Union countries into which it is licensed to offer insurance services, as well as initiating business operations through its newly opened branch office in Milan, Italy. There has been no significant change, nor material adverse change, in its financial or trading position or its prospects since 31 December 2006.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Ambac is aware) during the previous 12 months which may have, or have had in the recent past, significant effects on Ambac's financial position or profitability.

### Directors of Ambac

The following sets forth a list of the members of the board directors of Ambac by name and principal activity:

<u>Name</u>	<u>Function</u>	<u>Principal Activities</u>
Robert John Genader	Executive	Chairman of the Board, President and Chief Executive Officer, Ambac Assurance Corporation and Ambac Financial Group Inc.
Douglas Renfield-Miller	Executive	Executive Vice President, Ambac Assurance Corporation, and Chairman and Chief Executive Officer, Ambac Assurance UK Limited (appointed Chairman and Chief Executive Officer 11 April 2005).
John Wyatt Uhlein III	Executive	Executive Vice President, Ambac Assurance Corporation and Ambac Financial Group, Inc.
Martin Roberts	Non-Executive	Independent Consultant, Director, Financial Management Assurance Consultants Ltd.
David William Wallis	Executive	Senior Managing Director, Ambac Assurance Corporation
David Ronald Larwood	Executive	(Part-time) Financial Controller Ambac Assurance UK Limited Director, Stonebridge International Insurance Co. Ltd.
Ian Marcus Dixon	Executive	Managing Director, Ambac Assurance UK Limited
Jonathan Prestwich Scott	Non-Executive	Retired Project Financier

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 Messrs. Renfield-Miller, Dixon, Roberts, Larwood and Scott is Level 7, 6 Broadgate, London EC2M 2QS, United Kingdom.

As at the date of this Prospectus, the above-mentioned board members of Ambac do not have any potential conflicts of interest between any duties to Ambac, and their private interests or other duties.

### **Insurance Regulation**

Ambac is authorised and regulated 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 years ended 31 December 2006 and 31 December 2005 are annexed as an appendix to this Prospectus.

### **Capitalisation and Indebtedness**

The following table sets forth the audited 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 31 December 2006.

	<b>As at 31 December 2006</b>
Short term debt (1)	(£) 0
Long term debt (1)	0
Total Issued and Paid up Share Capital (2)	<u>31,000,000</u>
Profit and Loss Account	16,088,000
Capital Contributions	<u>2,268,000</u>
Total Shareholders' Equity	<u>49,356,000</u>

Notes:

- (1) On 31 December 2006 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) As at 31 December 2006 the issued and paid up share capital of Ambac comprised 31,000,000 ordinary stock of £1 each. This was increased to 36,000,000 ordinary stock of £1 each on 8 May 2007. The authorised share capital of Ambac is £60 million.

There has been no material change in the authorised and issued share capital, capitalisation or indebtedness (including guarantees or contingent liabilities) of Ambac since 31 December 2006. (otherwise than as disclosed in Note 2, above).

**Auditors**

Ambac's auditors are KPMG Audit Plc, 8 Salisbury Square, London EC4Y 8BB. KPMG is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

Their reports on the audited accounts of Ambac for the years ended 31 December 2006 and 31 December 2005 annexed as an appendix to this Prospectus. Ambac's auditors have not changed during the period covered by such audited accounts.

**Material Contracts**

Save as disclosed in this Prospectus (see "*Relationship Between Ambac Assurance UK Limited and Ambac Assurance Corporation*"), Ambac has not entered into contracts outside the ordinary course of business that could result in Ambac being under an obligation or entitlement that is material to Ambac's ability to meet its obligations to the beneficiary of its financial guarantee.

## 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 2007, Ambac Assurance's net par outstanding and net insurance in force were US\$ 546.8 billion and US\$ 849.1 billion, respectively.

Ambac Assurance has been assigned triple-A financial strength ratings by Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch, Inc. These ratings are an essential part of Ambac Assurance's ability to provide credit enhancement. See “*Rating Agencies*” below.

Ambac Assurance has nine wholly-owned subsidiaries, Ambac Assurance UK Limited, a UK licensed insurance company, Ambac Credit Products, LLC, Ambac Capital Services, LLC, Ambac Credit Products Limited, and Ambac Financial Services, LLC, companies that write derivative products, 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. Investors 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.

### **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 2007, Ambac Assurance insured gross par amount of \$70.5 billion, of which \$28.5 billion, or 40% was related to new issue and secondary market policies on municipal bonds. Approximately \$34.5 billion, or 49% of gross par written during the six months ended 30 June 2007 represented domestic (U.S.) structured finance exposure. Approximately \$7.5 billion, or 11% of gross par written during the six months ended 30 June 2007 represented international exposure. Ambac Assurance sells most of its insurance in the new issue U.S. bond market. During the year ended 31 December 2006, Ambac Assurance insured gross par amount of \$124.5 billion, of which \$43.1 billion, or 35% was related to new issue and secondary market policies on municipal bonds. Approximately \$62.4 billion, or 50% of gross par written during the year ended 31 December 2006 represented domestic (U.S.) structured finance exposure. Approximately \$19.0 billion, or 15% of gross par written during the year ended 31 December 2006 represented international exposure.

### **Rating Agencies**

Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch, 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 Investors Service, Inc., Standard & Poor's Ratings Services, or Fitch, 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 2007, Ambac Assurance had retained 90 percent of its gross insurance in force of \$943.2 billion and had ceded approximately 10 percent 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 2007, Ambac Assurance's investment portfolio had an aggregate fair value and an amortized cost of \$10.3 billion. The investment policy established by the board of directors for Ambac Assurance's investments is designed to achieve diversification of the portfolio. 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 the capitalization of Ambac and subsidiaries as of 30 June 2007, 31 December 2006, and 31 December 2005, in conformity with U. S. generally accepted accounting principles.

### Ambac Assurance Corporation and Subsidiaries

#### CONSOLIDATED CAPITALIZATION TABLE

(Dollars in Millions)

	30 June 2007 (unaudited)	31 December 2006	31 December 2005
Long-term debt <sup>(1)</sup> .....	\$275	\$0	\$0
Stockholder's equity			
Common stock .....	82	82	82
Additional paid-in capital .....	1,545	1,509	1,453
Accumulated other comprehensive income .....	29	142	137
Retained earnings .....	5,576	5,259	4,510
Total stockholder's equity .....	\$7,232	\$6,992	\$6,182

(1) Long-term debt relates entirely to variable interest entity notes consolidated under the provisions of FIN46R "Consolidation of Variable Interest Entities".

There has been no material adverse change in the capitalization of Ambac and subsidiaries from 30 June 2007 to the date of this Prospectus, other than as detailed below under the heading "Recent Developments", in the section headed "Relationship Between Ambac Assurance UK Limited and Ambac Assurance Corporation".

## 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:

<u>Name</u>	<u>Home or Business Address</u>	<u>Principal Activities</u>
Robert J. Genader	Ambac Financial Group, Inc. One State Street Plaza New York, NY 10004	Chairman of the Board, President and Chief Executive Officer of Ambac Financial Group, Inc. and Ambac Assurance.



<u>Name</u>	<u>Home or Business Address</u>	<u>Principal Activities</u>
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.
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, The Interpublic Group of Companies, Inc. and the Federal Reserve Bank of New York.
Philip Duff	108 John Street Greenwich, CT 06831	Non-executive director; Chairman and CEO of Robson Ventures LLC.
W. Grant Gregory	Gregory & Hoenemeyer, Inc. Two Greenwich Plaza Greenwich, CT 06830	Presiding and non-executive director; Chairman of Gregory Hoenemeyer, Inc., Director of Double Click Inc.
Thomas C. Theobald	8 Sound Shore Drive, Suite 285, Greenwich, CT 06830	Non-executive director; Chairman of the Board of Columbia Mutual Funds; Director of Anixter International, Jones Lang LaSalle Incorporated, and Ventas, 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, Director of Borland Software Corporation and MBNA.
Henry D. G. Wallace	15543 Monterosso Lane Unit 201 Naples, Florida 34110	Non-executive director; former Group Vice President and Chief Financial Officer of Ford Motor Company; Director of Diebold, Inc. and Hayes Lemmerz International, Inc.

## **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. Ambac outsources to Ambac Assurance substantial management support functions. In addition, Ambac has the following financial support arrangements with Ambac Assurance.

### **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 Standard & Poor's Ratings Services, Moody's Investors Service, Inc. or Fitch, Inc.

### **Reinsurance Agreement**

The obligations of Ambac under the Ambac Financial Guarantee will be substantially reinsured with Ambac Assurance pursuant to a reinsurance agreement dated as of 1 January 1997 (the "**Reinsurance Agreement**") which is governed by the laws of the State of New York.

Pursuant to the 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 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 aggregate 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 Reinsurance Agreement (together, the "Ambac Support 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 Ambac Financial Guarantee. Accordingly, Noteholders do not have any recourse to Ambac Assurance in respect of the Ambac Support Agreements.**

Information in this Prospectus concerning Ambac Assurance is provided for background purposes only in view of the importance to Ambac of the Ambac Support Agreements. It does not imply that the Ambac Support 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 Ambac Financial Guarantee and will not be additionally guaranteed by Ambac Assurance.

Noteholders should note that Ambac's ability to perform its obligations under the Ambac Financial Guarantee and to maintain its current ratings substantially depends on the ability of Ambac Assurance to perform its obligations under the Ambac Support Agreements.

### **Recent Developments**

On 10 October 2007 Ambac Financial Group, Inc. (the ultimate holding company of the Ambac group of companies) issued a press release disclosing that it was estimating a fair value adjustment in its accounts to reflect a mark-to-market unrealised loss of \$743 million as a result of pricing changes in the credit derivatives market and its exposures under outstanding credit derivative contracts. For the full text of the press release (which does not form part of this Prospectus) see the Ambac Financial Group Inc.'s website at [www.ambac.com](http://www.ambac.com). There has been no material adverse change in the claims paying resources of Ambac Assurance, and its ability to perform its obligations under the Ambac Support Agreements. Ambac Financial Group, Inc. intends to release information regarding its third quarter 2007 earnings on 24 October 2007. Investors should consult Ambac Financial Group Inc.'s web site at [www.ambac.com](http://www.ambac.com) for additional information.

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

### *Form*

Each Class of Notes (each, a “**Relevant Class of Notes**”) will be represented by one or more permanent global note certificates (each, a “**Global Note**”) in registered form without interest coupons or principal receipts registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for The Bank of New York as common depository (the “**Common Depository**”) for Euroclear and Clearstream, Luxembourg. Upon deposit of the Global Notes, Euroclear or Clearstream, Luxembourg will credit each subscriber of the Notes with the principal amount of Notes for which it has subscribed and paid.

The Global Notes are each referred to as a “Global Note” and are together referred to as the “Global Notes”.

Temporary documents of title will not be issued for the Global Notes.

### *Euroclear and Clearstream, Luxembourg*

Ownership of beneficial interests in the Global Notes will be limited to persons that have accounts with Euroclear or Clearstream, Luxembourg (“**participants**”) or persons that hold interests in the Global Notes through participants (“**indirect participants**”), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly. Indirect participants will also include persons that hold beneficial interests through such indirect participants. Euroclear and Clearstream, Luxembourg, as applicable, will credit the participants’ accounts with the respective amount of Notes beneficially owned by such participants on each of their respective book-entry registration and transfer systems. Beneficial interests in the Global Notes will be shown on, and transfers of book-entry interests or the interests therein will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg (with respect to the interests of their participants) and on the records of participants or indirect participants (with respect to the interests of their indirect participants). The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may therefore impair the ability to own, transfer or pledge book-entry interests.

The registered holder of a Global Note will be considered the sole Noteholder for all purposes under the Trust Deed. Accordingly, each person holding a beneficial interest in the Global Notes must rely on the rules and procedures of Euroclear and/or Clearstream, Luxembourg (the “**Clearing Systems**”), as the case may be, and indirect participants must rely on the procedures of the participants or indirect participants through which such person owns its interest in the relevant Global Notes, to exercise any rights and obligations of a holder of Notes under the Trust Deed.

Although the Clearing Systems have agreed to certain procedures to facilitate transfers of beneficial interests in the Global Notes among account holders of the Clearing Systems, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Note Trustee, the Lead Managers or any of their respective agents will have any responsibility for the performance by the Clearing Systems or their participants or account holders of their respective obligations under the rules and procedures governing their operations.

References herein to Euroclear and/or Clearstream, Luxembourg or the Clearing Systems will be deemed to include references to any other clearing system approved by the Trustee.

### *Payments*

Payment of principal of, and interest on, and any other amount due in respect of, the Global Notes, will be made in Euro by the Principal Paying Agent on behalf of the Issuer to the registered holder thereof. It is anticipated that the Principal Paying Agent will distribute all such payments in Euro for the account of the registered holder to the relevant Clearing System. All such payments will be distributed without deduction or withholding for any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer nor any other person will be obliged to pay additional amounts in respect thereof.

In accordance with the rules and procedures for the time being of the relevant Clearing System, after receipt of any payment from the Principal Paying Agent the respective systems will promptly credit their participants' accounts with payments in amounts proportionate to their respective ownership of the Global Notes as shown in the records of Euroclear or Clearstream, Luxembourg. The Issuer expects that payments by participants to owners of beneficial interests in Global Notes held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participants or indirect participants. None of the Issuer, the Trustee, or any of their respective agents, will have any responsibility or liability for any aspect of the records relating to or payments made on account of a participant's ownership of beneficial interests in the Global Notes or for maintaining, supervising or reviewing any records relating to a participant's ownership of Global Notes.

### *Notices*

For so long as any of the Notes are represented by a Global Note and such Global Note is held on behalf of a relevant Clearing System, notices to Noteholders may be given by delivery of the relevant notice to the relevant Clearing System for communication to the relative accountholders rather than by publication as required by Condition 18 (*Notices and Information*). So long as the Notes are listed on the regulated market of the Irish Stock Exchange, the Company Announcement Office of the Irish Stock Exchange must also be notified of such notice. Any such notice will be deemed to have been given to the Noteholders on the seventh day after the day on which such notice is delivered to the relevant Clearing System as aforesaid.

### *Redemption*

In the event that any Global Note (or portion thereof) is redeemed, the Principal Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to the relevant Clearing System for the account of the relevant nominee, and the Principal Paying Agent will cancel such Global Note. The redemption price payable in connection with the redemption of Noteholder interests in a Global Note will be equal to the amount received by the Principal Paying Agent in connection with the redemption of the Global Note (or portion thereof) relating thereto. For any redemptions of a Global Note in part, the relevant Noteholder interests relating thereto to be redeemed will be allocated by the relevant Clearing System, as the case may be, on a *pro rata* basis.

### *Cancellation*

Any Note represented by a Global Note which is required to be cancelled following its redemption will be cancelled by reduction in the principal amount of the applicable Global Note and may not be reissued or resold.

### *Transfers*

All transfers of beneficial interests in the Global Notes will be recorded in accordance with the book-entry systems maintained by the relevant Clearing System pursuant to customary procedures established by each respective system and its participants.

Beneficial interests in the Global Notes may be held only through Euroclear or Clearstream, Luxembourg.

Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of definitive Notes.

### *Issuance of Notes in Definitive Form*

Holders of beneficial interests in the Global Notes will be entitled to receive Definitive Notes in exchange for their respective holdings of beneficial interests if:

- (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 or 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 regulations of Luxembourg (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.

If Definitive Notes are issued, the beneficial interests represented by the Global Notes will be exchanged in whole (but not in part) by the Issuer for Definitive Notes in the aggregate amount equal to the balance outstanding of the relevant Global Note, subject to and in accordance with the detailed provisions of the Agency Agreement, the Trust Deed and the relevant Global Notes. Any Definitive Notes issued in exchange for beneficial interests in the Global Notes will be registered in a register in such name or names and in such Authorised Denominations as the Principal Paying Agent will instruct the Registrar based on the instructions of the relevant Clearing System. It is expected that such instructions will be based upon directions received by the relevant Clearing System from their participants with respect to ownership of the relevant beneficial interests in the Global Notes.

### *Prescription*

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by a Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

### *Meetings*

The holder of each Global Note will (unless it represents only one Note) be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each €1,000 of principal amount of Notes for which the relevant Global Note may be exchanged.

## TAX CONSIDERATIONS

### General

Purchasers of Notes may be required to pay stamp taxes and other charges, in accordance with the laws and practices of the country of purchase, in addition to the issue price of each Note.

The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes. Potential purchasers should consult their own tax advisors as to the tax consequences of the purchase, ownership, transfer or enforcement of any Note. In particular, no representation is made as to the manner in which payments under the Notes would be characterised by any relevant taxing authority.

### Luxembourg Taxation

*The statements herein regarding taxation in Luxembourg are based on the laws in force in the Grand Duchy of Luxembourg as of the date of this Prospectus and are subject to any changes in law.*

#### *Luxembourg tax residency of the Noteholders*

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

#### *Withholding tax on interest*

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to individual Noteholders and to certain entities, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to individual Noteholders and to certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

#### *Luxembourg non-resident individuals*

Under the Luxembourg laws dated 21 June 2005 implementing the European Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive") and several agreements concluded between Luxembourg and certain dependent or associated territories of the European Union (the "EU"), a Luxembourg-based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident as "beneficial owner" (within the meaning of the Savings Directive) in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the procedure of exchange of information or for the tax certificate procedure (for "residual entities", the tax certificate procedure is not available). The same treatment applies to payments of interest and other similar income made to certain "residual entities" within the meaning of Article 4.2 of the Directive established in a Member State or in certain EU dependent or associated territories.

The withholding tax rate is initially 15%, increasing to 20% as from 1 July 2008 and to 35% as from 1 July 2011. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries. Responsibility for the withholding will be assumed by the Luxembourg paying agent (within the meaning of the Savings Directive).

Investors should note that the scope of the Savings Directive may be reviewed and amended at some point in the future. The foregoing is thus only a summary of some of the implications of the Savings Directive and the law in force as at the date of this Prospectus and does not constitute legal advice.

### ***Luxembourg resident individuals***

Interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents are subject to a 10% withholding tax.

### ***Taxation of Luxembourg non-residents***

Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment, a permanent representative nor a fixed base of business in Luxembourg with which the holding of the Notes is connected are not liable to any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon the redemption or repurchase of the Notes, or realise capital gains on the sale or the exchange of any Notes.

### ***Taxation of Luxembourg residents - General***

Noteholders who are residents of Luxembourg, or non-resident Noteholders who have a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Notes is connected will not be liable to any Luxembourg income tax on repayment of principal.

### ***Luxembourg resident individuals***

The 10% Luxembourg withholding tax, if applicable (see the above section "Withholding tax on interest – Luxembourg resident individuals") represents the final tax liability for the Luxembourg individual resident taxpayers, receiving the payment in the course of their private wealth. Individual Luxembourg resident Noteholders receiving the interest as business income must include interest income in their taxable basis. In the latter situation, the 10% Luxembourg withholding tax levied will be credited against their final income tax liability.

Luxembourg resident individual Noteholders are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes precedes the acquisition of the Notes or the Notes are disposed of within six months of the date of acquisition of these Notes. Upon the sale, redemption or exchange of the Notes, accrued but unpaid interest will, however, be subject to the 10% withholding tax, if applicable. Individual Luxembourg resident Noteholders receiving the interest as business income must also include the portion of the price corresponding to this interest in their taxable income. The 10% Luxembourg withholding tax levied will be credited against their final income tax liability.

### ***Luxembourg resident companies***

Noteholders who are Luxembourg resident companies ("*société de capitaux*") or foreign entities of the same type which have a permanent establishment or a permanent representative in Luxembourg with which the holding of the Notes is connected, must include in their taxable income any interest received or accrued as well as the difference between the sale or redemption price (including accrued but unpaid interest) and the lower of the costs or book value of the Notes sold or redeemed.

### ***Luxembourg resident companies benefiting from a special tax regime***

Noteholders who are holding companies subject to the law of 31 July 1929 or undertakings for collective investment subject to the law of 20 December 2002 or the law of 13 February 2007 are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax) other than the subscription tax calculated on their share capital or net asset value.



### ***Net Wealth Tax***

Luxembourg net wealth tax will not be levied on a Noteholder, unless (i) such Noteholder is a Luxembourg fully taxable resident company or (ii) the Notes are attributable to an enterprise or part thereof which is carried on by a non-resident company in Luxembourg through a permanent establishment.

### ***Other Taxes***

There is no Luxembourg registration tax, stamp duty, capital tax or any other similar tax or duty payable in Luxembourg by Noteholders as a consequence of the issue of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, redemption or exchange of the Notes (except a fixed duty of €12 in the case of voluntary registration of documents in Luxembourg).

There is no Luxembourg value added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg value added tax will, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services. Under Luxembourg value added tax law, fees for management services rendered to Luxembourg securitisation companies are exempt from Luxembourg value added tax.

No Luxembourg estate or inheritance taxes are levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

No Luxembourg gift tax is levied on the transfer of the Notes by gift, unless the gift is registered in Luxembourg.

### ***EU Competition – State Aid***

The Issuer is a securitisation company incorporated by virtue of the law dated 22 March 2004 on securitisation (the “**Securitisation Law**”). The Securitisation Law sets forth a specific tax regime benefiting securitisation undertakings, including securitisation companies created under the Securitisation Law, such as the Issuer.

On 13 February 2006, the EU Commission (the “**Commission**”) wrote to the Luxembourg Government, requesting information from it in respect of the Luxembourg securitisation law (Law of 22 March 2004) and the Luxembourg law on investment companies in risk capital (SICAR) (Law of 15 June 2004) as regards the compatibility of these laws with European legislation relating to the provision of State Aid.

If the Commission determines that a legislative regime is in breach of EU legislation relating to the provision of State Aid, it could (as a worst case scenario) require that such legislation be repealed, depending upon the circumstances. In addition, the Commission could require that such legislation be repealed with retrospective effect.

Given that the process remains at a very preliminary stage, it is impossible to assess the impact, if any, of the Commission’s request for information made to the Luxembourg Government.

Even if the tax regime provided for in the Securitisation Law were repealed, it is unlikely that this would have a material adverse effect on the funds available to the Issuer to satisfy its obligations under the Notes. The most likely consequence of the repeal of the Securitisation Law is that the Issuer would be required to make an annual net wealth tax payment of €62. However, there would be no impact on

the tax deductibility of interest paid by the Issuer under the Notes or on the exemption from withholding tax on payments made under the Notes.

### **Irish Taxation**

*The following summary outlines certain aspects of Irish tax law and practice regarding the ownership of Notes. This summary is not exhaustive and does not address special classes of Noteholders such as dealers in securities. The comments are made on the basis that the Issuer is not resident in Ireland for Irish tax purposes. The summary is based on current Irish taxation legislation and practice of the Irish Revenue Commissioners.*

#### ***Withholding Tax***

Under Irish tax law there is no obligation on the Issuer to operate any withholding tax on payments of interest on the Notes unless the interest has an Irish source. The interest could be considered to have an Irish source, where, for example, interest is paid out of funds maintained in Ireland or where the notes are secured on Irish situate assets. The mere listing of the notes on the Irish Stock Exchange and offering of the Notes to Irish investors will not cause the interest to have an Irish source.

In certain circumstances collection agents and other persons receiving interest on the Notes in Ireland on behalf of an Irish resident note holder, will be obliged to operate a withholding tax.

#### ***Irish Resident Individuals***

For Irish taxation purposes, it is likely that an individual's interest in the Notes will be regarded as a "material interest in an offshore fund". The relevant legislation broadly provides that an interest in a company resident outside Ireland will be regarded as a "material interest in an offshore fund" if investors could reasonably expect to be able to realise their share of the market value of the underlying assets of the company within a seven-year period. As a consequence, an Irish resident individual Noteholder must report the acquisition of a material interest in an offshore fund in their Irish tax return covering the period in which the acquisition of the Notes is made.

#### ***Acquisition***

The subscription for the Notes should not give rise to a liability to Irish tax.

#### ***Ongoing***

Income on the Notes will be taxable in Ireland on an arising basis at an individual Noteholder's marginal rate of income tax (plus pay related social insurance ("PRSI")/levies where appropriate).

#### ***Exit***

Where the Notes are held until maturity, or alternatively if they are redeemed early, any payment of income made by the Issuer, which is likely to include any payment made by the Issuer to a Noteholder in excess of the amount originally subscribed, to an individual Noteholder would be liable to income tax at the individual's marginal rate of income tax (plus / levies where appropriate).

Where Noteholders dispose of their interest in the Notes after a minimum period of two years, it is likely that they would be liable to Irish capital gains tax at a rate of 20% on the proceeds received in excess of the original amount subscribed. Where such a disposal is made within two years of the date of acquisition, the individual may be liable to income tax on the proceeds in excess of the original loan amount at their marginal rate (plus PRSI/levies where appropriate).

### *Irish anti-avoidance legislation - transfer of assets abroad*

The acquisition of the interest in the Notes by an Irish resident individual could fall within the scope of certain Irish anti-avoidance legislation which concerns the transfer of assets abroad. However, the legislation does not apply where the transaction is for genuine commercial purposes and where a reasonable person would not view its purpose as being one of avoiding a liability to tax.

### *Gift/inheritance tax*

If any Notes are transferred to another person by way of gift or inheritance, a potential capital acquisition tax ("CAT") charge may arise at a rate of 20% above an exempt threshold calculated by reference to the relationship between the donor and the beneficiary. Notwithstanding that the Notes are issued by a Luxembourg company, a liability to CAT can arise if the disponent or the recipient of the gift or inheritance is resident or ordinarily resident in Ireland.

### *Irish tax resident companies*

For Irish taxation purposes, it is likely that a corporate Noteholder's interest in the Notes will be regarded as a "material interest in an offshore fund". The relevant legislation broadly provides that an interest in a company resident outside Ireland will be regarded as a "material interest in an offshore fund" if investors could reasonably expect to be able to realise their share of the market value of the underlying assets of the company within a seven-year period. As a consequence, an Irish resident corporate Noteholder must report the acquisition of a material interest in an offshore fund in its Irish tax return covering the period in which the acquisition of the Notes is made.

### *Acquisition*

Subscribing for the Notes should not give rise to a liability to Irish tax.

### *Ongoing*

Income on the Notes receivable by a corporate Noteholder should be taxable on a receipts basis to the corporation at a rate of 25%.

### *Exit*

For Irish tax purposes, where the Notes are held until maturity, or alternatively if they are redeemed early, any payment made by the Issuer to an Irish resident corporate Noteholder in excess of the original amount subscribed would be liable to corporation tax at a rate of 25%. The excess proceeds may also form part of the surchargeable investment income for closely held companies and be subject to a further 20% surcharge to the extent it is not distributed to shareholders within 18 months of the applicable year end.

Where an Irish resident company disposes of its interest in the Notes after a minimum period of two years, it is likely that it would be liable to Irish corporation tax at an effective rate of 20% on the proceeds received in excess of the original amount subscribed. In certain circumstances where such a disposal is made within two years of the date of acquisition, a corporate Noteholder may be liable to corporation tax on the proceeds in excess of the original amount subscribed at a rate of 25%.

### *Irish tax resident pension funds*

As the Luxembourg company will be regarded as a close company for Irish tax purposes, it is recommended that any pension fund considering investing seek specialist advice on its own tax position in advance of subscribing. In order to obtain certainty as to the tax treatment applying it would be advisable for any pension fund considering investing to seek a ruling from Revenue.

### ***European Directive on Taxation of savings Income***

Ireland has implemented the Savings Directive into national law. Any Irish paying agent making an interest payment on behalf of the Issuer to an individual, and certain residual entities, resident in another EU Member State and certain associated dependant territories of a Member State, will have to provide details of the payment to the Irish Revenue Commissioners who in turn will provide such information to the competent authorities of the State or territory residence of the individual or residual entity concerned.

### **United Kingdom Taxation**

*The comments below are of a general nature based on current United Kingdom law and practice and focus on the withholding position only. They relate only to the position of persons who are the absolute beneficial owners of their Notes and may not apply to certain classes of taxpayers such as dealers in securities. They do not necessarily apply where the income is deemed for tax purposes to be income of any other person.*

#### ***Interest on the Notes***

The Notes will constitute “quoted Eurobonds” within the meaning of section 987 of the Income Tax Act 2007 (the “**Income Tax Act**”) provided they are and continue to be listed on a “recognised stock exchange” within the meaning of section 1005 of the Income Tax Act. In the case of Notes to be traded on the Irish Stock Exchange which is a “recognised stock exchange”, this condition will be satisfied if the Notes are to be admitted to listing on the Official List of the Irish Stock Exchange and admitted to trading on its regulated market. Accordingly, payments of interest on the Notes may be made without withholding on account of UK income tax.

In all other cases, if interest on the Notes were to be treated as arising in the UK, an amount may be withheld on account of income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary by HM Revenue and Customs under an applicable double taxation treaty, and except that the withholding obligation is disapplied in respect of payments to Noteholders who the Issuer reasonably believes are either a UK resident company or a non-UK resident company carrying on a trade in the UK through a permanent establishment which is within the charge to corporation tax, or fall within various categories enjoying a special tax status (including charities and pension funds), or are partnerships consisting of such persons (unless HM Revenue and Customs directs otherwise).

If interest on the Notes constitutes UK source income for tax purposes it may be subject to income tax by direct assessment even where paid without withholding. However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a Noteholder who is not resident for tax purposes in the UK unless that Noteholder carries on a trade, profession or vocation in the UK through a UK branch or agency or for holders who are companies through a UK permanent establishment, in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

Noteholders should note that the Issuer will not be obliged to make any additional payments to a Noteholder in respect of any withholding or deduction required to be made by applicable law. Any such withholding or deduction will not constitute an Issuer Enforcement Event under Condition 10(b) (*Issuer Enforcement Events - Events*).

#### ***Stamp duty***

No stamp duty or stamp duty reserve tax will be payable in respect of the issue or transfer of the Notes provided, in the case of stamp duty only, that no instrument of transfer is executed in the UK or relates

to a matter or thing to be done in the UK. No instrument of transfer needs to be executed for the transfer of interests in the Notes when represented by Global Notes.

#### ***Payments under the Ambac Financial Guarantee***

Noteholders should note that the United Kingdom tax treatment of any payment under the Ambac Financial Guarantee in respect of Scheduled Interest and Ultimate Principal due on the Notes made by Ambac to the Note Trustee for the benefit of the Noteholders is technically unclear.

In particular, it is uncertain whether amounts paid by Ambac under the Ambac Financial Guarantee in respect of interest payable under the terms of the Notes would be regarded as interest, qualifying annual payments or some other form of income arising in the United Kingdom for the purposes of United Kingdom taxation.

If the payments are regarded as interest arising in the United Kingdom they will be paid subject to withholding or deduction on account of United Kingdom tax at the lower rate (currently 20 per cent.) unless an exemption applies. It should be noted that the exemption which would (if the interest arose in the United Kingdom) entitle the Issuer to pay interest on the Notes without deduction of tax because the Notes are listed on a recognised stock exchange (see the section entitled "Interest on the Notes" above) may not apply to payments by Ambac under the Ambac Financial Guarantee which are treated as interest.

If the payments are regarded as "qualifying annual payments" arising in the United Kingdom, they will be paid subject to withholding or deduction on account of United Kingdom tax at the basic rate (currently 22 per cent.) unless an exemption applies.

If the payments are regarded as some other form of income, there should be no withholding or deduction in respect of UK tax.

To the extent that any withholding arises on payment to be made in respect of a Note, Ambac will not be required to pay any additional amount in respect thereof.

#### ***European Directive on Taxation of Savings Income***

Under Council Directive 2003/48/EC on the taxation of savings income Member States are required from 1 July 2005 to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to or for an individual in that other Member State. However, for a transitional period certain countries, including Luxembourg, where such information is not provided, are instead required to withhold tax in relation to such payments. A fuller description of the Luxembourg taxation position is set out above.

## SUBSCRIPTION AND SALE

Pursuant to a Subscription Agreement dated 24 October 2007 (the “**Subscription Agreement**”) Lehman Brothers International (Europe) and Goldman Sachs International (the “**Lead Managers**”) have severally and not jointly agreed to procure subscribers for, or failing which to subscribe, ~~€~~ and ~~€~~ respectively, at a price equal to 100 per cent. of the aggregate principal amount of the Class A-1 Notes and the Class A-2 Notes. The Lead Managers will receive from the General Partner a combined management, underwriting and selling commission. The Lead Managers will be reimbursed by the General Partner for certain of their expenses incurred in connection with the issue of the Notes. In addition, the Lead Managers are entitled to terminate the Subscription Agreement in certain circumstances before the issue of the Notes.

Either Lead Manager or both Lead Managers may hold the Class A-1 Notes and/or the Class A-2 Notes upon the closing of the transaction. If they do so, each Lead Manager may distribute the Notes held by it to the market as permitted by applicable laws and regulations, but will be under no obligation to do so.

### **United Kingdom**

Each of the Lead Managers has represented and agreed with the Issuer that:

- (a) 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 Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) 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 (and, in respect of the Class A-1 Notes, the guarantee thereon) have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US Persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Each of the Lead Managers has agreed that it will not offer or sell the Notes, (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering or the Closing Date, within the United States or to, or for the account or benefit of, US Persons, and it will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration to which it sells Notes during the distribution compliance period (as defined in Regulation S) a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, US Persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

### **Ireland**

Each of the Lead Managers has represented and agreed with the Issuer (i) that it will not underwrite or place the Notes in or involving Ireland otherwise than in conformity with all applicable provisions of

the Irish Companies Acts 1963 to 2006 as amended, the Investment Intermediaries Act, 1995 of Ireland, as amended, including, without limitation, Sections 9 and 23 (including advertising restrictions made thereunder) thereof and the codes of conduct made under Section 37 thereof or, in the case of a credit institution exercising its rights under the Banking Consolidation Directive (2000/12/EC of 20th March 2000) in conformity with the codes of conduct or practice made under Section 117(1) of the Central Bank Act 1989, of Ireland, as amended, with respect to anything done by it in relation to the Notes; and (ii) that it has not offered or sold or will not offer or sell any Notes in Ireland except in circumstances which do not require the publication of a prospectus pursuant to Article 3 of Directive 2003/71/EC.

## France

Each of the Lead Managers has represented and agreed with the Issuer that it has not offered, sold or otherwise transferred and will not offer, sell or otherwise transfer, directly, or indirectly, the Notes to the public in the Republic of France and that any offers, sales or other transfers of the Notes in the Republic of France will be made in accordance with Article L. 411-2 of the French Monetary and Financial Code (*Code monétaire et financier*) only to:

- (i) qualified investors (*investisseurs qualifiés*) acting for their own account except as otherwise stated under French laws and regulations; and/or
- (ii) a restricted circle of investors (*cercle restreint d'investisseurs*) acting for their own account, all as defined in Articles L.411-2, D. 411-1 to D. 411-4, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the *Code monétaire et financier*; and/or
- (iii) persons providing portfolio management financial services (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*); and/or
- (iv) generally to persons and in any transaction that, in accordance with Article L.411-2-II-1° or -2° – or 3° and Article 211-2 of the General Regulations of the *Autorité des marchés financiers* does not constitute a public offer, provided that the Issuer is a French *société anonyme* or *société en commandite par actions* or a foreign limited company with a similar status.

This Prospectus has not been prepared in the context of a public offer of securities in the Republic of France within the meaning of Article L. 411-1 of the *Code monétaire et financier* and Articles 211-1 *et seq.* of the General Regulations of the *Autorité des marchés financiers* and has not been and will not be submitted to the clearance procedures of the *Autorité des marchés financiers* or the competent authority of another member state of the European Economic Area and notified to the *Autorité des marchés financiers*.

In addition, each of the Lead Managers has represented and agreed with the Issuer that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in the Republic of France this Prospectus or any other offering material relating to the Notes other than to investors to whom offers, sales or other transfers of the Notes in the Republic of France may be made as described above.

This Prospectus and any other offering material relating to the Notes are not to be further distributed or reproduced (in whole or in part) by the addressee and have been distributed on the basis the addressee invests for its own account, as necessary, and does not resell or otherwise retransfer, directly or indirectly, the Notes to the public in the Republic of France other than in compliance with Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the *Code monétaire et financier*.

## **General**

No action is being taken in any jurisdiction that would or is intended to permit a public offering of the Notes, or the possession, circulation or distribution of this Prospectus or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required. Accordingly, each of the Lead Managers has undertaken that it will not, directly or indirectly, offer or sell any Notes, in any country or jurisdiction where action for that purpose is required and neither this Prospectus nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from or published in any country or jurisdiction, except under circumstances which will result in compliance with the applicable laws and regulations.



## GENERAL INFORMATION

### Clearing Systems

The Notes of each Class have been accepted for clearance through Euroclear and Clearstream, Luxembourg as follows:

	ISIN	Common Code
Class A-1 Notes	XS0326459418	032645941
Class A-2 Notes	XS0326463444	032646344

### Listing

Application has been made to the Financial Regulator of Ireland, as competent authority under the Prospectus Directive for the approval of this Prospectus. Application has been made to the Irish Stock Exchange for the admittance of the Notes to the Official List of the Irish Stock Exchange and trading on its regulated market. The estimated expenses associated with the admission to trading of the Notes are expected to be €4,782.

### Consents and Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in Luxembourg (if any) in connection with the issue and performance of the Notes. The issue of the Notes was authorised by a resolution of the Board of Directors of the Issuer passed on or around 19 October 2007.

### No Significant or Material Change

There has been no significant change in the financial or trading position or prospects of the Issuer since its incorporation on 7 September 2007.

### No Litigation

None of the Issuer, the General Partner or the Limited Partnership is involved or has been involved in any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer, the General Partner or the Limited Partnership (as the case may be) is aware) which may have or have had since the date of its incorporation a significant effect on the Issuer's financial position.

### Accounts

Since the date of creation the Issuer has not commenced operations and no accounts have been made up as of the date of this Prospectus. The first set of audited financial statements will be published in respect of the period from the date of incorporation of the Issuer to 31 December 2007 and thereafter a set of financial statements will be published in respect of the period from 1 January to 31 December of each year. For so long as any Notes are outstanding, these financial statements will be available at the registered office of the Issuer and at the specified office of the Principal Paying Agent. It is not intended that any interim financial statements of the Issuer, audited or otherwise, will be prepared.

### Documents Available for Inspection

Copies, in physical form, of the following documents may be inspected (and, in the case of items (a) and (b) below, will be available free of charge) at the registered office of the Issuer and offices of the

Principal Paying Agent during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) while there are any Notes outstanding:

- (a) the Articles of Association of the Issuer;
- (b) the Trust Deed (which includes the form of each Note of each Class);
- (c) the Ambac Financial Guarantee;
- (d) the Financial Guarantee Reimbursement Agreement;
- (e) the Agency Agreement;
- (f) the Cash Management Agreement;
- (g) the Floating Rate Deposit Agreement;
- (h) the Fixed Deposit Agreement;
- (i) the Issuer Deed of Charge;
- (j) the Limited Partnership Agreement;
- (k) the Calculation Agreement;
- (l) the Security Power of Attorney;
- (m) the Investment Powers of Attorney;
- (n) the Subscription Agreement;
- (o) the Support Agreement;
- (p) the General Partner Keepwell Agreement;
- (q) the Master Definitions and Framework Deed;
- (r) the Account Bank Agreement;
- (s) the Liquidity Facility Agreement;
- (t) the Ambac Liquidity Facility Financial Guarantee;
- (u) the Issuer Expenses Loan Agreement;
- (v) the Issuer Corporate Services Agreement;
- (w) the Memorandum and Articles of Incorporation of Ambac;
- (x) Ambac's financial statements; and
- (y) Actuaries' Report.

**Capacity to Produce Funds**

The Issuer confirms that the assets backing the issue of the Notes, taken together with the other arrangements entered into by the Issuer on the Closing Date, have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes.

**Websites**

Any website mentioned herein does not form part of this Prospectus.

**APPENDIX 1 – FINANCIAL STATEMENTS OF AMBAC**

# **Ambac Assurance UK Limited**

## **Directors' Report and Financial Statements for the year ended 31 December 2006**

**Registered no: 3248674**

# **Ambac Assurance UK Limited**

## **Directors' Report and Financial Statements for the year ended 31 December 2006**

	<b>Pages</b>
<b>Directors and advisers</b>	<b>1</b>
<b>Directors' report</b>	<b>2-6</b>
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# **Ambac Assurance UK Limited**

## **Directors and advisers**

### **Directors**

Douglas C Renfield-Miller *Chairman of the Board*  
Robert J Genader  
Martin Roberts  
David W Wallis  
David R Larwood  
John W Uhlein III  
Ian Dixon

### **Secretary and registered office**

John Tiff  
Level 7  
6 Broadgate  
London EC2M 2QS

### **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 Assurance UK Limited**

## **Directors' report**

The directors present their report and the audited financial statements for the year to 31 December 2006.

### **Principal activity**

Ambac Assurance UK Limited ("the Company") carries on non-life financial guarantee insurance business. The Company is a wholly owned subsidiary of Ambac Assurance Corporation ("AAC"), a financial guarantee insurance company resident in Wisconsin, United States of America. The ultimate holding company is Ambac Financial Group, Inc., ("AFG") a company publicly quoted on the New York Stock Exchange in New York, United States of America.

The principal activity of the Company is providing financial guarantee insurance for European infrastructure, sub-sovereign, utility and structured finance obligations. Financial guarantee insurance written by the Company generally provides an unconditional and irrevocable guarantee that protects the holder of a fixed income obligation or bank loan against non-payment of principal and interest when due. Essentially, the Company makes payments if the issuer or obligor responsible for making payments fails to do so.

### **Business review**

The Company is authorized to transact credit, suretyship and financial guarantee insurance business in the United Kingdom. In 2005, the Company established a branch office in Milan, Italy and is authorized to provide services in relation to such business to entities in fifteen European Union ("EU") countries. EU legislation allows the Company to conduct business in EU states other than the United Kingdom in compliance with the scope of permission granted to it by the Financial Services Authority ("FSA") without the necessity of additional licensing or authorization in other EU jurisdictions.

Ambac Assurance UK Limited has earned triple-A financial strength ratings, the highest ratings available from Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch, Inc.

During 2006, the Company continued to be a party to a reinsurance agreement and net worth maintenance agreement with AAC. The cover provided is a quota share agreement representing 90% of all credit and financial guarantee loss exposure. The net retention of all loss exposure is reinsured on an excess of loss basis above an attachment point of £500,000. In addition, AAC is required under a net worth maintenance agreement to cause the company to maintain free assets of at least £10,500,000 above any regulatory requirement.

During 2006, the Company closed a number of infrastructure transactions. The Company expanded its participation in the UK Private Finance Initiative ("PFI") sector with the completion of the Aspire Defence Finance plc and Highlands Schools financings in the PFI accommodation sector as well as the Royal London and Barts Hospital in the PFI healthcare sector. Gross par written for the PFI sector for the year ended 31 December 2006 was £1.5 billion.



## **Ambac Assurance UK Limited**

### **Directors' report – continued**

In addition, the Company guaranteed the financings of other infrastructure projects including the refinancing of Emirates Stadium, home of Arsenal Football Team and Ajman Sewerage, located in the United Arab Emirates.

The Company also closed transactions in the water utility and electricity and gas transmission sectors. Gross par written for these transactions totalled £1.1 billion for the year ended 31 December 2006.

In structured finance, the Company was also successful in closing a number of transactions including the first ever wrapped financing of a wind farm, as well as refinancings of two telephone exchange securitisations and a tap issue and secondary wrap on whole business securitisations in the pub sector. Gross par written for the structured finance sector for the year ended 31 December 2006 was £2.1 billion.

The company continued to expand its presence in Italy, as it issued several guarantees in the road, commercial mortgage and sub-sovereign sectors. These transactions totalled €0.5 billion for the year ended 31 December 2006.

The Company considers gross premiums written as well as the net claims incurred ratio to be the key financial performance indicators for measuring business production and the underlying credit quality the insured portfolio, respectively. For the year ended 31 December 2006, gross written premiums were £171.0 million versus £83.5 million for the year ended 31 December 2005, an increase of 105%. This increase is attributable to the volume of new deals closed during 2006, particularly in the PFI sector. The net claims incurred ratio is defined as claims incurred net of reinsurance, divided by earned premiums, net of reinsurance. During 2006, the Company experienced its first ever default of an insured obligation, as the issuer of Ambac Assurance UK insured Eurotunnel bonds failed to pay scheduled interest to bondholders. As a result, the Company paid claims during 2006 in the amount of £1.3 million, of which £1.2 million was reimbursed by AAC under the quota share reinsurance agreement. As the Company expects full reimbursement from the issuer for claims paid, the Company has recorded a recovery which offsets the past and estimated future claim payments, resulting in a net claims incurred ratio of zero for the year ended 31 December 2006. As there were no defaulted obligations prior to 2006, the net claims incurred ratio for 31 December 2005 was zero.

### **Principal risks and uncertainties**

#### Financial risk management objectives

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and liabilities. The most important components of this financial risk are interest rate risk, currency risk, credit risk and liquidity risk.

The Company manages these risks by maintaining investment guidelines, employing a global foreign currency hedging strategy, evaluating the creditworthiness of reinsurers and maintaining adequate liquidity.

## **Ambac Assurance UK Limited**

### **Directors' report – *continued***

#### Interest Rate Risk

Interest rate risk arises primarily from investments in fixed interest securities. The Company generally invests in floating rate instruments or short or medium term securities so as to minimize interest rate risk. As of 31 December 2006, the longest dated bond in AUK's portfolio had a scheduled maturity date of 7 March 2012.

#### Currency Risk

The Company is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Sterling. The most significant foreign currency to which the Company is exposed is the Euro. The Company utilizes a global, firm wide foreign currency hedging strategy to mitigate currency risk. Additionally, the terms of the 90% quota share reinsurance agreement with AAC enable AUK to require that AAC fund its portion of claim payments due prior to the Company's requirement to the insured, thus mitigating currency risk.

#### Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company's business is to guarantee that the holders of debt instruments are protected against credit risk with respect to the insured debt instruments of the issuers. We utilize reinsurance to manage this insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the contract holder. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalization of any contract.

#### Liquidity Risk

Liquidity risk relates to the possible inability to satisfy contractual obligations when due. The Company maintains a minimum level of cash and short term investments at all times. Short term investments are required to be held in time deposits with a tenor no greater than one year or money market accounts with banks regulated within the European Union. Using the lower rating assigned, time-deposits and money market accounts must be rated A-1/P-1 and AAA/Aaa, respectively, by Standard & Poor's or Moody's Investors Service, Inc.

Additionally, the Company's policy for long term investments is to invest in the securities of either the United Kingdom or the United States of America for reasons of preservation of capital and income.

#### Operational Risk

Operational risk relates to the potential for loss caused by a breakdown in information, communication, and settlement systems. The Company mitigates operational risk by maintaining and testing critical systems (and their system backups) and performing ongoing control procedures to monitor transactions and positions, maintain documentation, confirm transactions and ensure compliance with regulations.

## **Ambac Assurance UK Limited**

### **Directors' report – *continued***

#### **Results and dividends**

The results for the year are set out in the profit and loss account on pages 9 and 10.

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 or debentures of the Company. Under the provisions of the Company Regulations 1985 (Disclosure of Directors' Interests) (Exceptions), the directors of the Company are exempt from disclosing any interests in the shares of Ambac Financial Group, Inc., the ultimate holding company.

#### **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

UK company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

## Ambac Assurance UK Limited

### Directors' report – *continued*

Each person who is a director at the date of approval of this report confirms that: i) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and ii) each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

### 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



John Tiff *Secretary*  
6 March 2007

## **Ambac Assurance UK Limited**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AMBAC ASSURANCE UK LIMITED**

We have audited the financial statements of Ambac Assurance UK Limited ("the Company") for the year ended 31 December 2006 which comprise of the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditor**

As described in the Statement of Directors' Responsibilities on page 5, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit 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

6 March 2007

## Ambac Assurance UK Limited

### Profit and loss account Technical account - general business for the year ended 31 December 2006

	Notes	2006		Restated 2005	
		£'000	£'000	£'000	£'000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3	171,008		83,509	
Outward reinsurance premiums	4	(154,233)		(75,446)	
			16,775		8,063
Change in the gross provision for unearned premiums	17	(110,237)		(32,023)	
Change in the provision for unearned premiums, reinsurers' share	17	99,207		28,813	
			(11,030)		(3,210)
			5,745		4,853
<b>Other technical income</b>			179		108
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount			1,294		-
Reinsurers' share			(1,165)		-
Net claims paid			129		-
Change in the provision for claims					
Gross amount	17		(1,294)		-
Reinsurers' share	17		1,165		-
Change in the net provision for claims			(129)		-
<b>Claims incurred, net of reinsurance</b>			-		-
<b>Net operating expenses</b>	5		(4,649)		(3,196)
<b>Balance on the technical account for general business</b>			1,275		1,765

## Ambac Assurance UK Limited

### Profit and loss account Non - technical account - general business for the year ended 31 December 2006

	<i>Notes</i>	2006	Restated 2005
		£'000	£'000
Balance on the general business technical account		1,275	1,765
Investment income	6	3,131	2,677
Investment expenses and charges	7	(58)	(43)
Net realised (losses) gains		(32)	80
Other income and charges		667	788
<b>Profit on ordinary activities before tax</b>	8	<b>4,983</b>	<b>5,267</b>
Tax on profit on ordinary activities	11	1,145	1,750
<b>Profit on ordinary activities after tax</b>		<b>3,838</b>	<b>3,517</b>
<b>Retained profit for the year</b>		<b>3,838</b>	<b>3,517</b>

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

	£'000	Restated £'000
Retained profit after tax for the year	3,838	3,517
Exchange movements, net of related tax	4	-
<b>Total recognised gains in the year</b>	<b>3,842</b>	<b>3,517</b>
Prior year adjustment	954	-
<b>Total gains recognised since last annual report</b>	<b>4,796</b>	<b>3,517</b>

### Reconciliation of movements in shareholder's funds

	£'000	Restated £'000
Total recognised gains in the year	3,842	3,517
Share capital issued in the period	-	4,000
Credit in relation to share based payments	856	777
Balance at beginning of the year	44,658	35,919
Prior period adjustment (Note 2)	-	445
Restated opening shareholder's funds	44,658	36,364
<b>Balance at end of year</b>	<b>49,356</b>	<b>44,658</b>

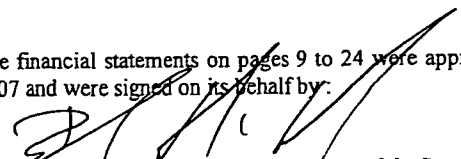


# Ambac Assurance UK Limited

## Balance sheet at 31 December 2006

	Notes	2006 £'000	Restated 2005 £'000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	12	71,190	60,349
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	17	397,060	297,853
Provision for claims	17	5,661	-
<b>Debtors</b>			
Other debtors arising out of insurance operations		288,604	204,531
Other debtors	13	8,542	726
<b>Other assets</b>			
Tangible assets	14	1,519	1,863
Cash at bank and in hand		417	1,987
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	17	11,637	11,093
<b>Total assets</b>		<u>784,630</u>	<u>578,402</u>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	16	31,000	31,000
Profit and loss account	19	16,088	12,246
Capital contributions		2,268	1,412
<b>Shareholder's funds - equity interests</b>		<u>49,356</u>	<u>44,658</u>
<b>Technical provisions</b>			
Provision for unearned premiums	17	441,012	330,775
Provision for claims	17	6,290	-
<b>Creditors</b>			
Creditors arising out of reinsurance operations		267,608	185,070
Other creditors including taxation and social security	15	4,898	4,537
<b>Accruals and deferred income</b>	18	15,466	13,362
<b>Total liabilities</b>		<u>784,630</u>	<u>578,402</u>

The financial statements on pages 9 to 24 were approved and authorized for issue by the board of directors on 6 March 2007 and were signed on its behalf by:

  
Douglas C. Renfield-Miller - *Chairman of the Board*

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2006

### 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 on Accounting for Insurance Business issued by the Association of British Insurers (the "ABI SORP") dated December 2005 (as amended in December 2006).

### 2 Accounting policies

#### *Change in accounting policy*

Effective 1 January 2006, the Company began to account for share based employee compensation in accordance with Financial Reporting Standard Number 20, "Share-based Payment" ("FRS 20"), for all employee awards granted after 1 January 2003. The adoption of FRS 20 represents a change in accounting policy and the comparative figures have been restated accordingly. For the year ended 31 December 2005, the effect on the profit and loss account is a reduction of retained profit by £483,000 and the effect of capital contributions is an increase of £777,000.

Shareholders' funds at 1 January 2005 increased by £636,000 for the effect of capital contributions for the years ended 31 December 2004 and 2003. Offsetting this increase is a reduction of retained profit of £191,000 for the related periods. The net impact on 1 January 2005 shareholders' funds is an increase of £445,000.

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.

When the premium on a policy is received in instalments, the premium recognition is dependent on whether the Company is contractually entitled to future premiums. For those contracts with guaranteed premium amounts, the contractually entitled amount is recognized as written at the inception of the policy. For those contracts where there is no contractual entitlement to future premiums, future instalment premiums are considered sufficiently uncertain such that recognition of future premiums as written at inception is not considered appropriate. Instalment premiums written are earned in the technical account over each instalment period.

Unearned premiums represents the portion of premiums written in the current or prior years that relate to unexpired terms of policies in force at the balance sheet date, calculated on a basis proportionate to the remaining scheduled periodic maturity of principal and payment of interest to the original total principal and interest insured.

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2006

### 2 Accounting policies - *continued*

#### *Premium income and unearned premiums*

Outward reinsurance premiums are accounted for the same as the premiums for the related insurance business.

#### *Structuring and commitment 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 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. In connection with its financial guarantee business, the Company may issue commitments to provide guarantees relating to potential future debt issuances. Commitment fees are generally collected on an instalment basis and are earned in the technical account over each instalment period.

#### *Acquisition costs*

Certain costs incurred primarily related to the production of business have been deferred. The Company periodically conducts a study to determine which operating expenses vary with and primarily relate to the acquisition of new business and qualify for deferral. These costs include compensation of employees, marketing, premium taxes and certain other costs, net of reinsurance ceding commissions. 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 that corresponds to the proportion of premiums written which are unearned at the balance sheet date.

#### *Share based payments*

Compensation expense is recognized over the relevant service period based on the fair value of stock options and restricted stock units ("RSUs") granted for 2003 and future years. Stock options and RSU expenses are allocated to each of Ambac Financial Group's subsidiaries based on the actual number of stock options and RSUs granted to each subsidiary's employees. No unearned compensation is included in Shareholder's funds for such stock options and restricted stock units granted. Rather, such stock options and restricted stock units are included in Shareholder's funds when services required from employees are rendered and expensed.

#### *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.

#### *Claims*

A case basis loss provision is established for insured obligations when, in the judgment of management, a monetary default in the timely payment of debt service are 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. In certain transactions, the insured is contractually required to reimburse the Company for lost investment income that results from claim payments. The loss provision is based upon estimates and judgments by management. As such, there can be no assurance that the actual losses in our financial guarantee insurance portfolio will not exceed its loss reserves.

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2006

### 2 Accounting policies - *continued*

#### *Investment income*

Investment income is accounted for on an accrual 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.

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 using the interest method.

#### *Foreign currencies*

Transactions in foreign currencies are translated to sterling at the rate ruling at the date the transaction is made. Assets and liabilities expressed in foreign currencies are translated to sterling at rates of exchange ruling at the end of the financial year. Differences arising on exchange are reflected in the non-technical account. The profit and loss accounts of the Italy branch are translated to sterling using average rates of exchange. Assets and liabilities of the branch are translated to sterling at year-end rates of exchange. The impact of these foreign currency translations is recorded as a component of Shareholder's Funds within the statement of total recognised gains and losses.

#### *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 that 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 Segmental information

The Company only writes one class of business, that being non-life financial loss insurance, 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 that relate to outwards reinsurance transactions is an expense of £48,789,000 (2005: an expense of £41,585,000).

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2006

### 5 Net operating expenses

	2006	Restated 2005
	£'000	£'000
Acquisition costs	6,853	6,396
Change in gross deferred acquisition costs	(544)	(1,679)
	<u>6,309</u>	<u>4,717</u>
Administrative expenses	4,570	3,444
	<u>10,879</u>	<u>8,161</u>
Reinsurance commissions	(7,894)	(4,726)
Change in deferred reinsurance commission	1,664	(239)
	<u>4,649</u>	<u>3,196</u>

### 6 Investment income - non-technical account

	2006	2005
	£'000	£'000
Income from other financial investments	<u>3,131</u>	<u>2,677</u>

Investment income includes £3,093,000 (2005: £2,628,000) of income from listed investments.

### 7 Investment expenses and charges

	2006	2005
	£'000	£'000
Investment management expenses and bank charges	<u>58</u>	<u>43</u>

### 8 Profit on ordinary activities before tax

	2006	2005
	£'000	£'000
<i>Profit on ordinary activities before tax is stated after charging</i>		
Auditors' remuneration		
Audit	64	60
Other services - audit of regulatory returns	6	19
- other non-audit	3	3
Depreciation	369	198

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2006

### 9 Remuneration of directors

	2006 £'000	2005 £'000
Directors' emoluments	698	375
Company contributions to money purchase schemes	29	15

The emoluments of the highest paid director were £356,000 (2005: £350,000). He is a member of a money purchase pension scheme, under which his accrued pension benefit at the year end was £267,000 (2005: £228,000).

Retirement benefits are accruing to the following number of directors under:

	Number of directors	
	2006	2005
Money purchase schemes	2	1

The number of directors exercising share options in the ultimate parent company during the year was 4 (2005: 3).

### 10 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

	Number of employees	
	2006	2005
Underwriting and surveillance	26	25
Administration	8	8

The aggregate payroll costs in respect of these persons were as follows:

	£'000	Restated £'000
Wages and salaries	6,314	6,012
Payroll taxes	1,101	662
Other pension costs	232	258

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2006

### 11 Taxation

#### Analysis of charge in period:

	2006 £'000	Restated 2005 £'000
Current tax:		
Corporation tax expense	1,444	1,690
Prior year adjustment	(263)	49
Total current tax	<u>1,181</u>	<u>1,739</u>
Deferred tax		
Current year benefit	(10)	(6)
Prior year adjustment	(26)	17
Total deferred tax	<u>(36)</u>	<u>11</u>
Tax on profit on ordinary activities	<u><u>1,145</u></u>	<u><u>1,750</u></u>

#### Factors affecting tax charge for period:

The tax assessed for the period differs from the standard 30% rate of corporation tax in the UK. The differences are explained below:

	2006		Restated 2005	
	£'000	%	£'000	%
Profit on ordinary activities before tax	<u>4,983</u>		<u>5,267</u>	
Profit on ordinary activities at the standard rate of UK corporation tax	1,494	30.0%	1,580	30.0%
Effects of:				
- Excess of depreciation over capital allowances	(7)	(0.1)%	(77)	(1.5)%
- Permanent differences	29	0.6%	23	0.4%
- Share based compensation expense	94	1.8%	172	3.3%
- Share based settlements	(162)	(3.3)%	-	-
- Prior period adjustments and other	(267)	(5.3)%	41	0.8%
Current tax charge	<u><u>1,181</u></u>	<u><u>23.7%</u></u>	<u><u>1,739</u></u>	<u><u>33.0%</u></u>

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2006

#### 11 Taxation - continued

The components of the net deferred tax asset at 31 December 2006 and 2005 are as follows:

	2006 £'000	Restated 2005 £'000	Change
<b>Deferred tax assets:</b>			
Compensation	471	265	206
<b>Total deferred tax assets</b>	<u>471</u>	<u>265</u>	<u>206</u>
<b>Deferred tax liabilities:</b>			
Deferred acquisition costs	256	93	163
Fixed assets	74	67	7
<b>Total deferred tax liabilities</b>	<u>330</u>	<u>160</u>	<u>170</u>
<b>Net deferred tax asset</b>	<u>141</u>	<u>105</u>	<u>36</u>

#### 12 Other financial investments

	Market Value		Cost		Carrying Value	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Fixed interest securities:</b>						
Listed on the UK Stock Exchange	66,620	56,444	68,944	57,547	67,335	56,026
Deposits with credit institutions	3,855	4,323	3,856	4,300	3,855	4,323
	<u>70,475</u>	<u>60,767</u>	<u>72,800</u>	<u>61,847</u>	<u>71,190</u>	<u>60,349</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 2006 was £2,422,000 (2005: £1,389,000).

#### 13 Other debtors

	2006 £'000	Restated 2005 £'000
Estimated recoveries under subrogation rights	7,584	-
Accrued interest	817	621
Deferred tax asset	141	105
	<u>8,542</u>	<u>726</u>



# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2006

### 14 Tangible assets

	Leasehold Improvements	Fixtures, fittings and office equipment	Total
	£'000	£'000	£'000
Cost:			
At beginning of year	1,464	818	2,282
Additions	15	10	25
	—	—	—
At 31 December 2006	<u>1,479</u>	<u>828</u>	<u>2,307</u>
Depreciation:			
At beginning of year	271	148	419
Additions	195	174	369
	—	—	—
At 31 December 2006	<u>466</u>	<u>322</u>	<u>788</u>
Net book value:			
At beginning of year	1,193	670	1,863
At 31 December 2006	<u>1,013</u>	<u>506</u>	<u>1,519</u>

### 15 Other creditors

The net book value of other creditors is made up as follows:

	2006 £'000	Restated 2005 £'000
Accrued expenditure	4,573	3,604
Corporation tax payable within one year	325	849
Other	—	84
	—	—
	<u>4,898</u>	<u>4,537</u>

### 16 Called up share capital

	2006 £'000	Restated 2005 £'000
Ordinary shares of £1 each:		
Authorised: 60,000,000 shares (2005: 60,000,000)	<u>60,000</u>	<u>60,000</u>
Issued and fully paid: 31,000,000 shares (2005: 31,000,000)	<u>31,000</u>	<u>31,000</u>

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2006

<b>17 Technical provisions and deferred acquisition costs</b>		Restated
Provision for unearned premiums	£'000	£'000
<b>Gross amount</b>		
At beginning of year	330,775	298,752
Movement in the provision	110,237	32,023
<b>At end of period</b>	<u>441,012</u>	<u>330,775</u>
<b>Reinsurance amount</b>		
At beginning of year	297,853	269,040
Movement in the provision	99,207	28,813
<b>At end of period</b>	<u>397,060</u>	<u>297,853</u>
<b>Provision for claims</b>		
<b>Gross amount</b>		
Provision for claims	6,290	-
Estimated recoveries under subrogation rights	(7,584)	-
<b>At end of period</b>	<u>(1,294)</u>	<u>-</u>
<b>Reinsurance amount</b>		
Provision for claims	(5,661)	-
Estimated payments of ceded subrogation rights	6,826	-
<b>At end of period</b>	<u>1,165</u>	<u>-</u>
<b>Net technical provisions</b>		
At end of year	<u>43,823</u>	<u>32,922</u>
At beginning of year	<u>32,922</u>	<u>29,712</u>
<b>Net technical provisions at end of year</b>	<b>43,823</b>	<b>32,922</b>
Deferred acquisition costs		
- gross	(11,637)	(11,093)
- reinsurance commissions	12,649	10,985
<b>Net insurance funds</b>	<u>44,835</u>	<u>32,814</u>

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2006

### 18 Accruals and deferred income

The net book value of the accruals and other income is made up as follows:

	2006 £'000	Restated 2005 £'000
Deferred reinsurance commissions	12,649	10,985
Deferred structuring fees	2,817	2,377
	<u>15,466</u>	<u>13,362</u>

### 19 Statement of movement on reserves

	2006 £'000	Restated 2005 £'000
Profit and loss account		
Balance at 1 January	12,246	8,729
Retained profit for the year	3,842	3,517
Balance at 31 December	<u>16,088</u>	<u>12,246</u>

### 20 Share based payments

The Ambac Financial Group 1997 Equity Plan (the "Equity Plan") provides for the granting of stock options, stock appreciation rights, restricted stock units, performance units and other awards that are valued or determined by reference to the Common Stock of AFG. AFG generally expects to deliver shares to employees under this plan from its treasury stock.

#### Stock options

Stock options awarded to eligible employees are exercisable and expire as specified at the time of grant. Such options are awarded based on the fair market value of the Common Stock of AFG, a U.S. dollar denominated stock traded on the New York Stock Exchange on the grant date and have a term of seven years from the date of the grant. All employee stock option agreements provide that vesting is accelerated in certain circumstances, such as upon retirement or death.

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2006

#### 20 Share based payments - continued

As mentioned in Note 2, "Share based payments," with the adoption of FRS 20, the Company used a Monte Carlo simulation model to calculate the fair value of the 2006 stock option grant. The model utilizes multiple input variables that determine the probability of satisfying each market condition stipulated in the option grant and calculates the fair market value for each option granted based on certain assumptions. In prior years, the Black-Scholes model was incorporated. The assumptions for the 2006 and 2005 stock option grants are as follows:

	2006	2005
Risk-free interest rate	4.3% - 4.4%	3.6%
Expected volatility	25.3%	26.6%
Suboptimal factor	175%	N/A
Dividend yield	0.80%	0.63%
Expected life	5.2 years	4 years

The expected volatility is based on the average of implied volatility in AFG's traded options and historical volatility levels on AFG's common stock over the contractual term of the option.

Suboptimal factor represents the option holder's expected exercise behaviour, that is, the percentage multiplied by the option grant's strike price results in the market price at which AFG expects the holder to exercise their option. The determination of the suboptimal factor is based on the exercise history of AFG's previous grants considering management's future expectation of exercise behaviour. The expected dividend yield is based on historical dividend payments. The risk-free interest rates reflect the yields on U.S. Treasuries over the contractual term of the award. We have adjusted the contractual term of the option for the effect of retirement-eligible participants to arrive at the expected term assumption.

The grant date fair values of stock options granted during 2006 and 2005 were \$22.25 and \$21.23, respectively. The fair value of the 2006 option award is attributed over the derived vesting periods based on the output of the valuation model and represents the median time required to satisfy the market conditions of the award.

A summary of option activity for 2006 and 2005 are as follows:

	2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	98,650	\$ 67.82	64,884	\$ 60.74
Granted	42,300	\$ 74.74	38,650	\$ 79.30
Exercised	(6,500)	\$ 56.14	(2,667)	\$ 56.14
Expired or cancelled	(10,200)	\$ 76.82	(2,217)	\$ 74.94
Outstanding at end of year	124,250	\$ 70.05	98,650	\$ 67.82
Exercisable	26,800	\$ 56.14	25,368	\$ 56.14

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2006

### 20 Share based payments - continued

#### Options Outstanding:

Range of Exercise Prices	Number Outstanding at 31 December 2006	Average Remaining Contractual Life	Weighted Average Exercise Price
\$56.14 - \$56.14	38,300	3.1 years	\$ 56.14
\$73.70 - \$79.30	85,950	5.3 years	\$ 76.25

For stock options exercised during 2006 and 2005, the weighted average share prices at the dates of exercise were \$76.07 and \$82.05, respectively.

Gross stock option expense, prior to the effect of deferrals, for 2006 and 2005 was £283,052 and £276,517, respectively.

#### Restricted Stock Units

RSUs are granted to all eligible employees based upon the performance of AFG, the performance of the employee's department and the performance of the employee. Officers at the level of Managing Director and above, can, in lieu of the first twenty-five percent of their cash bonus, receive RSUs. These RSUs are granted at a twenty-five percent discount to the fair market value of AFG common stock on the date of grant. These employees can elect to defer more than twenty-five percent of their cash bonus in the form of RSUs, however, the aforementioned discount does not apply. RSUs do not have a vesting period in excess of four years. Prior to vesting, the RSUs cannot be sold or transferred by the participant and are subject to cancellation if the participant's employment is terminated. All RSU agreements provide that vesting is accelerated in certain circumstances, such as retirement or death.

The grant date fair values of RSUs granted during 2006 and 2005 were \$74.43 and \$79.30, respectively, which represents the fair market value of the common stock as traded on the New York Stock Exchange on the date of grant. Gross RSU expense, prior to the effect of deferrals, for 2006 and 2005 was £572,842 and £500,785, respectively.

### 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 £238,000 (2005: £258,000).

### 22 Cashflow

The company has not prepared a cashflow statement, as it is a wholly owned subsidiary of Ambac Assurance Corporation that 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. Ceded written premiums of £154,000,000 (2005: £75,124,000) were recorded.

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2006

### 23 Related party transactions - continued

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 2006, the company recorded gross premiums written of £233,000 (2005: £322,000) relating to these policies.

The company has issued financial guarantee insurance policies to the credit default 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 gross premiums written of £264,000 during 2006 (2005: £489,000) related to these financial guarantees.

The company has issued a financial guaranty policy to Ambac Private Holdings, LLC ("APH"), an affiliate domiciled in the United States of America, which obligates the company to make payments of scheduled principal and interest to APH if the issuer defaults on such payments relating to the insured obligation. The company recorded gross premiums written of £176,000 during 2006 (2005: £270,000) 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:

	Land and Buildings		Office Equipment	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Operating leases that expire:				
Within one year	95	279	2	-
Between two through five years	-	-	4	4
In more than five years	739	810	-	-

### 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 either from One State Street Plaza, New York, NY 10004, USA or via the Company's website: [www.ambac.com](http://www.ambac.com).

**Ambac Assurance UK Limited**

**Directors' Report and Financial Statements  
for the year ended 31 December 2005**

**Registered no: 3248674**

## **Ambac Assurance UK Limited**

### **Directors' Report and Financial Statements for the year ended 31 December 2005**

	<b>Pages</b>
<b>Directors and advisers</b>	<b>1</b>
<b>Directors' report</b>	<b>2-3</b>
<b>Independent auditors' report to the members of Ambac Assurance UK Limited</b>	<b>4-5</b>
<b>Technical account - general business</b>	<b>6</b>
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# Ambac Assurance UK Limited

## Directors and advisers

### Executive Directors

Douglas C Renfield-Miller *Senior Managing Director, Chairman & Chief Executive Officer* <sup>(1)(2)</sup>  
Robert J Genader <sup>(1)</sup>  
Martin Roberts <sup>(3)</sup>  
David W Wallis <sup>(1)</sup>  
David R Larwood <sup>(1)</sup>  
John W Uhlein III <sup>(1)(4)</sup>  
Ian Dixon <sup>(1)(5)</sup>

### Secretary and registered office

John Tiff  
Level 7  
6 Broadgate  
London EC2M 2QS

### 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

- <sup>(1)</sup> Executive Director
- <sup>(2)</sup> Appointed 11 April 2005
- <sup>(3)</sup> Non-executive Director
- <sup>(4)</sup> Resigned as Chairman and Chief Executive Officer 20 April 2005
- <sup>(5)</sup> Appointed 20 September 2005

## **Ambac Assurance UK Limited**

### **Directors' report**

The directors present their report and the audited financial statements for the year to 31 December 2005.

#### **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.

The principal activity of the Company is providing financial guarantee insurance for European infrastructure and asset-backed obligations. Financial guarantee insurance written by the Company generally guarantees payment when due of the principal of and interest on guaranteed obligations.

#### **Business review**

The Company is authorized to transact credit, suretyship and financial guarantee insurance business in the United Kingdom. In 2005, the Company established a branch office in Italy and is authorized to provide services in relation to such business to entities in thirteen European countries.

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 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 or debentures of the Company. Under the provisions of the Company Regulations 1985 (Disclosure of Directors' Interests) (Exceptions), the directors of the Company are exempt from disclosing any interests in the shares of Ambac Financial Group, Inc., the ultimate holding company.

## **Ambac Assurance UK Limited**

### **Directors' report – *continued***

#### **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

UK company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

#### **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**

  
**John Tiff** Secretary  
7 March 2006

## **Ambac Assurance UK Limited**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AMBAC ASSURANCE UK LIMITED**

We have audited the financial statements of Ambac Assurance UK Limited ("the Company") for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditor**

As described in the Statement of Directors' Responsibilities on page 3, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its profit 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

7 March 2006

## Ambac Assurance UK Limited

### Profit and loss account Technical account - general business for the year ended 31 December 2005

	Notes	2005		2004	
		£'000	£'000	£'000	£'000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3	83,509		147,315	
Outward reinsurance premiums	4	(75,446)		(133,103)	
			8,063		14,212
Change in the gross provision for unearned premiums	17	(32,023)		(83,122)	
Change in the provision for unearned premiums, reinsurers' share	17	28,813		74,972	
			(3,210)		(8,150)
			4,853		6,062
<b>Other technical income</b>			108		108
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount			-		-
Reinsurers' share			-		-
Net claims paid			-		-
Change in the provision for claims					
Gross amount			-		-
Reinsurers' share			-		-
Change in the net provision for claims			-		-
<b>Claims incurred, net of reinsurance</b>			-		-
Net operating expenses	5	(2,622)		(2,331)	
<b>Balance on the technical account for general business</b>			2,339		3,839

## Ambac Assurance UK Limited

### Profit and loss account Non - technical account - general business for the year ended 31 December 2005

	<i>Notes</i>	2005	2004
		£'000	£'000
Balance on the general business technical account		2,339	3,839
Investment income	6	2,677	2,002
Investment expenses and charges	7	(43)	(33)
Net realised gains (losses)		80	(75)
Other income and charges		788	540
<b>Profit on ordinary activities before tax</b>	<b>8</b>	<b>5,841</b>	<b>6,273</b>
Tax on profit on ordinary activities	11	1,815	1,893
<b>Profit on ordinary activities after tax</b>		<b>4,026</b>	<b>4,380</b>
<b>Retained profit for the year</b>		<b>4,026</b>	<b>4,380</b>

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

	£'000	£'000
Retained profit after tax for the year	4,026	4,380
Exchange movements, net of related tax	-	-
<b>Total recognised gains in the year</b>	<b>4,026</b>	<b>4,380</b>

### Reconciliation of movements in shareholder's funds

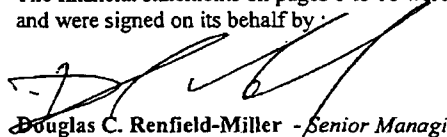
	£'000	£'000
Total recognised gains in the year	4,026	4,380
Share capital issued in the period	4,000	10,000
Balance at beginning of the year	35,919	21,539
<b>Balance at end of year</b>	<b>43,945</b>	<b>35,919</b>

# Ambac Assurance UK Limited

## Balance sheet at 31 December 2005

	<i>Notes</i>	2005 £'000	2004 £'000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	12	60,349	54,154
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	17	297,853	269,040
<b>Debtors</b>			
Other debtors arising out of insurance operations		204,531	173,770
Other debtors	13	621	711
<b>Other assets</b>			
Tangible assets	14	1,863	204
Cash at bank and in hand		1,987	2,592
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	17	10,527	9,050
<b>Total assets</b>		<u>577,731</u>	<u>509,521</u>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	16	31,000	27,000
Profit and loss account	19	12,945	8,919
<b>Shareholder's funds - equity interests</b>		43,945	35,919
<b>Technical provisions</b>			
Provision for unearned premiums	17	330,775	298,752
<b>Creditors</b>			
Creditors arising out of reinsurance operations		185,070	156,592
Other creditors including taxation and social security	15	4,579	4,549
<b>Accruals and deferred income</b>	18	13,362	13,709
<b>Total liabilities</b>		<u>577,731</u>	<u>509,521</u>

The financial statements on pages 6 to 18 were approved by the board of directors on 7 March 2006 and were signed on its behalf by:

  
 Douglas C. Renfield-Miller - Senior Managing Director, Chairman and Chief Executive Officer



# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2005

### 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 on Accounting for Insurance Business issued by the Association of British Insurers dated December 2005.

### 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.

When the premium on a policy is received in instalments, the premium recognition is dependent on whether the Company is contractually entitled to future premiums. For those contracts with guaranteed premium amounts, the contractually entitled amount is recognized as written at the inception of the policy. For those contracts where there is no contractual entitlement to future premiums, future instalment premiums are considered sufficiently uncertain such that recognition of future premiums as written at inception is not considered appropriate. Instalment premiums written are earned in the technical account over each instalment period.

Unearned premiums represents the portion of premiums written in the current or prior years that relate to unexpired terms of policies in force at the balance sheet date, calculated on a basis proportionate to the remaining scheduled periodic maturity of principal and payment of interest to the original total principal and interest insured.

Outward reinsurance premiums are accounted for the same 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 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.

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2005

### 2 Accounting policies - *continued*

#### *Acquisition costs*

Certain costs incurred primarily related to the production of business have been deferred. The Company periodically conducts a study to determine which operating expenses vary with and primarily relate to the acquisition of new business and qualify for deferral. These costs include compensation of employees, marketing, premium taxes and certain other costs, net of reinsurance ceding commissions. 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 that corresponds to the proportion of premiums written 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 are 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 an accrual 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*

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 using the interest method.

#### *Foreign currencies*

Transactions in foreign currencies are translated to sterling at the rate ruling at the date the transaction is made. Assets and liabilities expressed in foreign currencies are translated to sterling at rates of exchange ruling at the end of the financial year. Differences arising on exchange are reflected in the non-technical account. The profit and loss accounts of the Italy branch are translated to sterling using average rates of exchange. Assets and liabilities of the branch are translated to sterling at year-end rates of exchange. The impact of these foreign currency translations is recorded as a component of Shareholder's Funds within the statement of total recognised gains and losses.

#### *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.

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2005

### 2 Accounting policies - *continued*

#### *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 that 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 Segmental information

The Company only writes one class of business, that being non-life financial loss insurance, 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 that relate to outwards reinsurance transactions is an expense of £41,585,000 (2004: an expense of £52,463,000).

### 5 Net operating expenses

	2005	2004
	£'000	£'000
Acquisition costs	6,192	4,824
Change in gross deferred acquisition costs	(1,477)	715
	<u>4,715</u>	<u>5,539</u>
Administrative expenses	2,871	2,461
	<u>7,586</u>	<u>8,000</u>
Gross operating expenses		
Reinsurance commissions	(4,725)	(5,948)
Change in deferred reinsurance commission	(239)	279
	<u>2,622</u>	<u>2,331</u>

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2005

### 6 Investment income - non-technical account

	2005 £'000	2004 £'000
Income from other financial investments	2,677	2,002

Investment income includes £2,628,000 (2004: £1,940,000) of income from listed investments.

### 7 Investment expenses and charges

	2005 £'000	2004 £'000
Investment management expenses and bank charges	43	33

### 8 Profit on ordinary activities before tax

	2005 £'000	2004 £'000
<i>Profit on ordinary activities before tax is stated after charging</i>		
Auditors' remuneration		
Audit	60	35
Other services - audit of regulatory returns	19	15
- other non-audit	3	9
Depreciation	198	59

### 9 Remuneration of directors

	2005 £'000	2004 £'000
Directors' emoluments	375	452
Company contributions to money purchase schemes	15	15

The emoluments of the highest paid director were £350,000 (2004: £427,000). He is a member of a money purchase pension scheme, under which his accrued pension benefit at the year end was £228,000 (2004: £185,000).

Retirement benefits are accruing to the following number of directors under:

	Number of directors	
	2005	2004
Money purchase schemes	1	1

The number of directors exercising share options in the ultimate parent company during the year was 3 (2004: 3).

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2005

### 10 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

	Number of employees	
	2005	2004
Underwriting and surveillance	25	21
Administration	8	7

The aggregate payroll costs in respect of these persons were as follows:

	£'000	£'000
Wages and salaries	4,814	4,848
Payroll taxes	662	492
Other pension costs	258	228

### 11 Taxation

Analysis of charge in period:

	2005 £'000	2004 £'000
Current tax		
- Corporation tax expense	1,690	1,955
- Prior year adjustment	49	47
Total current tax	1,739	2,002
Deferred tax		
- Current year expense (benefit)	85	(62)
- Prior year adjustment (benefit)	(9)	(47)
Total deferred tax	76	(109)
Tax on profit on ordinary activities	<u>1,815</u>	<u>1,893</u>

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2005

#### 11 Taxation - continued

##### Factors affecting tax charge for period:

The tax assessed for the period differs from the standard 30% rate of corporation tax in the UK. The differences are explained below:

	2005		2004	
	£'000	%	£'000	%
Profit on ordinary activities before tax	5,841		6,273	
Profit on ordinary activities at the standard rate of UK corporation tax	1,752	30.0%	1,882	30.0%
Effects of:				
- Excess of depreciation over capital allowances	(77)	(1.3)%	13	0.2%
- Permanent differences	23	0.4%	11	0.2%
- Adjustments to prior year tax charge	49	0.8%	47	0.7%
- Other differences	(8)	(0.1)%	49	0.8%
Current tax charge	1,739	29.8%	2,002	31.9%

#### 12 Other financial investments

	Market Value		Cost		Carrying Value	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Fixed interest securities:						
Listed on the UK Stock Exchange	56,444	54,225	57,547	55,218	56,026	54,154
Deposits with credit institutions	4,323	-	4,300	-	4,323	-
	60,767	54,225	61,847	55,218	60,349	54,154

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 2005 was £1,389,000 (2004: £1,957,000).

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2005

#### 13 Other debtors

	2005 £'000	2004 £'000
Accrued interest	598	599
Corporate tax receivable not within one year	-	98
Other	23	14
	<u>621</u>	<u>711</u>

#### 14 Tangible assets

The net book value of tangible assets is made up as follows:

	Leasehold Improvements	Fixtures, fittings and office equipment	Total
	£'000	£'000	£'000
Cost:			
At beginning of year	246	577	823
Additions	1,218	639	1,857
	<u>---</u>	<u>---</u>	<u>---</u>
At 31 December 2005	1,464	1,216	2,680
	<u>---</u>	<u>---</u>	<u>---</u>
Depreciation:			
At beginning of year	163	456	619
Additions	108	90	198
	<u>---</u>	<u>---</u>	<u>---</u>
At 31 December 2005	271	546	817
	<u>---</u>	<u>---</u>	<u>---</u>
Net book value:			
At beginning of year	83	121	204
At 31 December 2005	1,193	670	1,863
	<u>---</u>	<u>---</u>	<u>---</u>

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2005

### 15 Other creditors

The net book value of other creditors is made up as follows:

	2005 £'000	2004 £'000
Accrued expenditure	3,605	3,287
Corporation tax payable within one year	849	1,079
Corporation tax payable not within one year	41	-
Other	84	183
	<u>4,579</u>	<u>4,549</u>

### 16 Called up share capital

	2005 £'000	2004 £'000
Ordinary shares of £1 each:		
Authorised: 60,000,000 shares (2004: 60,000,000)	<u>60,000</u>	<u>60,000</u>
Issued and fully paid: 31,000,000 shares (2004: 27,000,000)	<u>31,000</u>	<u>27,000</u>

### 17 Technical provisions and deferred acquisition costs

	£'000	£'000
<b>Provision for unearned premiums</b>		
<b>Gross amount</b>		
At beginning of year	298,752	215,630
Movement in the provision	32,023	83,122
<b>At end of period</b>	<u>330,775</u>	<u>298,752</u>
<b>Reinsurance amount</b>		
At beginning of year	269,040	194,068
Movement in the provision	28,813	74,972
<b>At end of period</b>	<u>297,853</u>	<u>269,040</u>
<b>Net technical provisions</b>		
At end of year	<u>32,922</u>	<u>29,712</u>
At beginning of year	<u>29,712</u>	<u>21,562</u>
<b>Net technical provisions at end of year</b>	32,922	29,712
<b>Deferred acquisition costs</b>		
- gross	(10,527)	(9,050)
- reinsurance commissions	10,985	11,224
<b>Net insurance funds</b>	<u>33,380</u>	<u>31,886</u>



## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2005

#### 18 Accruals and deferred income

The net book value of the accruals and other income is made up as follows:

	2005 £'000	2004 £'000
Deferred reinsurance commissions	10,985	11,224
Deferred structuring fees	2,377	2,485
	<u>13,362</u>	<u>13,709</u>

#### 19 Statement of movement on reserves

	2005 £'000	2004 £'000
Profit and loss account		
Balance at 1 January	8,919	4,539
Retained profit for the year	4,026	4,380
Balance at 31 December	<u>12,945</u>	<u>8,919</u>

#### 20 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 £258,000 (2004: £228,000).

#### 21 Cashflow

The company has not prepared a cashflow statement, as it is a wholly owned subsidiary of Ambac Assurance Corporation that prepares financial statements including a consolidated cashflow statement.

#### 22 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. Ceded written premiums of £75,124,000 (2004: £132,747,000) were recorded.

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 2005, the company recorded gross premiums written of £322,000 (2004: £356,000) relating to these policies.

# Ambac Assurance UK Limited

## Notes to the financial statements for the year ended 31 December 2005

### 22 Related party transactions - *continued*

The company has issued financial guarantee insurance policies to the credit default 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 gross premiums written of £489,000 during 2005 (2004: £467,000) related to these financial guarantees.

The company has issued a financial guaranty policy to Ambac Private Holdings, LLC ("APH"), an affiliate domiciled in the United States of America, which obligates the company to make payments of scheduled principal and interest to APH if the issuer defaults on such payments relating to the insured obligation. The company recorded gross premiums written of £270,000 during 2005 (2004: £91,000) related to these financial guarantees.

### 23 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:

	Land and Buildings		Office Equipment	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Operating leases that expire:				
Within one year	279	63	-	-
Between two through five years	-	524	4	3
In more than five years	810	542	-	-

### 24 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 either from One State Street Plaza, New York, NY 10004, USA or via the Company's website: [www.ambac.com](http://www.ambac.com).

## APPENDIX 2 – SUMMARY OF POLICY PRODUCTS IN THE DYNAMIC DEFINED BLOCK

### Unit-Linked Life Assurance Products in the Dynamic Defined Block

#### Single Premium Life

This is a single contribution whole life assurance contract. Policyholders may opt to make further payments into these contracts at any time. The typical death benefit is 101 per cent. of the bid value of the units. These policies are predominantly level loaded with a fund charge of 1 per cent. - 1.5 per cent. *per annum*.

Certain policies have guarantees. These policies have a guaranteed return of the initial single premium after an initial period. For Guaranteed Smart Mix policies, this period is 5 years. For Guaranteed Evergreen Fund policies this period is 6 years. Also, for all policies taken out after April 2005, there is a guaranteed return of the initial single premium for policyholders who die in the first five years (six years for Guaranteed Evergreen).

Certain contracts offer an element of gearing on top of the original investment. These include the Geared Property Fund and a number of Pension Property Syndicates in both the Broker/DSF Channel and the Bank Channel.

On surrender in the first five years for Broker policies taken out since 1 January 2001, the following deductions are made (the same deductions apply to the Guaranteed Evergreen contracts sold in the Bank Channel):

Duration	0-1 yrs	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5+ yrs
Deduction	5%	4%	3%	2%	1%	0%

#### Savings

This is a regular premium whole life assurance. These contracts typically have no additional death benefit and are classified as investment. On death or surrender, the policyholder receives the bid value of the units on the policy. However, there are some products on the Broker/DSF Channel that have a small death benefit attaching and these are classified as insurance.

These are predominantly spread charge products that have a premium and fund charge. For broker policies taken out since 1 August 2006, on surrender in the first five years the following deductions are made:

Duration	0-1 yrs	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5+ yrs
Deduction	5%	4%	3%	2%	1%	0%

#### Protection

This is a regular premium whole life assurance contract. These contracts typically have a nil or reduced allocation period of up to two years. There is a premium charge of some five per cent. on these policies and also a policy fee of some three euro per month. These are flexible protection

contracts under which the premium and/or sum assured can be increased or reduced. Policyholders can have a number of benefits including the following:

Life Cover	Lump sum payable on death of the life assured
Critical Illness	Payable on diagnosis of a specified illness (this can be as a standalone benefit or as an acceleration of the life cover)
Total and Permanent Disability	This is chosen as a rider benefit to Critical Illness benefit. If this is chosen, the critical illness sum assured is payable where the life assured is unable to carry out any/own occupation due to total and permanent disablement.
Hospital Cash	Fixed amount payable per day of hospitalisation
Fracture Benefit/Specified Injury Benefit/Broken Bones Benefit	Payable on diagnosis of a specified injury
Absence from Work	Payable when policyholder is unable to work due to accident or injury
Waiver of Premium	Premium on policy is paid when policyholder is unable to work due to accident or injury

These can be single or joint/dual life contracts and the charge for each benefit depends on the age, sex and smoker status of the policyholder(s). All new contracts are underwritten and all these policies are classified as insurance under IFRS.

#### **Unit-Linked Pensions Products in the Dynamic Defined Block**

##### **Regular Premium Individual and Group Pensions**

The term of the contracts depends on the retirement age of the policyholder. The purpose of the contracts is to fund for retirement but these products also have the option to add risk benefits:

Life Cover	Lump sum payable on death of the life assured
Permanent Health Insurance	Payable when policyholder is unable to work due to accident or injury

Older broker pension contracts have up-front charges such as capital units. More recent contracts are predominantly spread charge products with a premium charge of the order of 5.0 per cent. and a fund charge of approx 0.75 per cent. – 1 per cent. *per annum*. Policies with risk benefits attaching are classified as insurance. Otherwise they are classified as investment.

These contracts typically pay a loyalty bonus on policies that remain in-force for a number of years. They may also pay a one-off bonus on retirement.

Premiums paid into pension policies are tax-deductible. Policyholders cannot surrender a policy before retirement but can transfer their funds to another provider. There are a number of different versions of pensions contracts, the main differences being the source of the contributions:

#### *Personal Pensions*

This is an individual pension contract for self-employed or for non self-employed with no access to an Executive/Group arrangement.

#### *Executive / Group Pensions*

This type of pension arrangement is provided by an employer. This can be an individual policy (executive pension) or a group policy. In either case, the employer pays a contribution on behalf of the employee/employees. The employee(s) may pay a contribution in addition to this.

#### *Additional Voluntary Contributions (AVC)*

This is for policyholders with an executive/group pension who want to supplement their pension contributions (up to the maximum percentage of Net Relevant Earnings allowable under the taxation regulations)

#### *Personal Retirement Savings Account (PRSA)*

This is a spread charge contract with maximum charges. It can be an individual policy or part of a group. There is no risk benefits allowed on this contract and it is classified as investment under IFRS.

#### **Single Premium Individual and Group Pensions**

These are spread charge products with no additional risk benefits. For certain policies taken out after April 2005, there is a guaranteed return of the initial single premium for policyholders who die in the first five years. The premium charge is approx five per cent. and the fund management charge is approx one per cent. *per annum*.

There are two categories of products

Policies sold prior to retirement:

Personal Pension Single Premium contracts

Executive Pension Single Premium contracts

AVC Single Premium contracts

Retirement Bonds

These policies are used to top-up a policyholder's fund at retirement.

Policies sold after retirement:

Approved Retirement Funds (ARFs)

Approved Minimum Retirement Funds (AMRFs)

This is an open-ended contract and the initial single premium in an ARF is the proceeds of a regular or single premium pension contract. There is also a Guaranteed Evergreen version of the ARF product. This is similar to the life version of the product.

### APPENDIX 3 – CONTENTS OF INVESTOR REPORTS

The Investor Report to be produced on an annual basis by the Issuer Cash Manager will include the following information:

1. Accounting Period ended: [•]  
Annual Determination Date: [•]
2. [No principal amount is payable on the Notes]/[The Pre-Amortisation Period remains in effect but a partial amortisation of the IL Loan is required resulting in the principal amount payable per €1,000 nominal amount of Notes arising as set out below]/[The Amortisation Period has commenced and the principal amount payable per €1,000 nominal amount of Notes is set out below]

Notes	Pool Factor	Note Principal Payments already made per €1,000 amount of Note	Note Principal Payment payable on next Interest Payment Date per €1,000 amount of Note
Class A-1 Notes	[•]	[•]	[•]
Class A-2 Notes	[•]	[•]	[•]

3. The following calculations and projections have been produced by BoI Life for indicative purposes only, without liability (including, without limitation, for negligence) of any nature whatsoever on the part of BoI Life, Bank of Ireland, the Issuer, the Note Trustee, the Security Trustee, the Issuer Corporate Services Provider, the Issuer Cash Manager, Ambac, the Limited Partnership, the General Partner, the GP Administrator, the Relevant Person, the Liquidity Facility Provider or any director, officer, affiliate or agent of any thereof (each a *Specified 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 Specified 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 other than as expressly provided in the Calculation Agreement. The calculation and projections have been made under and in accordance with the terms of the Calculation Agreement.

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 BoI 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.

*[During the Pre-Amortisation Period and the Amortisation Period]*

<b>Interest on IL Loan</b>	
Annual Recourse Cashflow Amount:	€[•]
Of which:	
Annual Recourse Insurance Cashflow Amount:	€[•]

<b>Interest on IL Loan</b>	
Annual Recourse Savings Cashflow Amount	€[•]
Spread for Spread Calculation Period	€[•]
<b>IL Loan Principal</b>	
Projected VIF:	€[•]
Of which:	
Projected Insurance VIF:	€[•]
Projected Savings VIF:	€[•]
IL Loan Account Closing Balance:	€[•]
Deficit Account Closing Balance (if any):	€[•]
Ratio of the sum of the IL Loan Account Closing Balance and the Deficit Account Closing Balance (if any) to Projected VIF:	1:[•]
Has a Savings Surplus Election been made?	{Yes}/{No}

*[During the Amortisation Period:*

The projected amortisation profile set out below in respect of each Class of Notes (the “**Projected Amortisation Profile**”) represents the outstanding principal of each Class of Notes following the July Interest Payment Date in respect of each Accounting Period, on the assumption that the Spread is expressed as a rate per cent. *per annum* is [•] per cent. *per annum* and paid in accordance with the Priority of Payments. The difference between the Projected Amortisation Profile in respect of one Accounting Period and the Projected Amortisation Profile in respect of the next Accounting Period is the amount which, on the projections, would be applied in redeeming the Notes on the July Interest Payment Date following the end of such Accounting Period. The Interest Payment Date in respect of an Accounting Period ending in March in a year is 30 July in the same year (or, if such day is not a Business Day, the immediately succeeding Business Day or, if such day falls in the next calendar month, the immediately preceding Business Day).

Accounting Period ending in March	Projected Insurance Surplus €m <sup>1</sup>	Projected Savings Surplus €m <sup>2</sup>	Projected Spread <sup>3</sup>	Class A-1 projected amortisation profile <sup>4</sup> €m	Class A-2 projected amortisation profile <sup>4</sup> €m
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<sup>1</sup> Projected Insurance Surplus is the amount projected under the Calculation Agreement to be the Annual Recourse Insurance Cashflow Amount projected to arise in the Accounting Period ending in [March] of the relevant year.

Accounting Period ending in March	Projected Insurance Surplus €m <sup>1</sup>	Projected Savings Surplus €m <sup>2</sup>	Projected Spread <sup>3</sup>	Class A-1 projected amortisation profile <sup>4</sup> €m	Class A-2 projected amortisation profile <sup>4</sup> €m
2009					
2010					
2011					
2012					
2013					
2014					
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					

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<sup>2</sup> Projected Savings Surplus is the amount projected under the Calculation Agreement to be the Annual Recourse Savings Cashflow Amount projected to arise in the Accounting Period ending in [March] of the relevant year.

<sup>3</sup> Projected Spread is the amount projected to be the aggregate of (i) Weighted Average Spread Rate in respect of the Notes plus (ii) the premiums expected to be payable to Ambac (expressed as a rate per cent. per annum) plus (iii) an amount (expressed as a rate per cent. per annum) reflecting other ancillary costs of the Issuer; such aggregate projected to be payable by the Issuer in the Accounting Period ending in March of the relevant year.

<sup>4</sup> The Class A-1 projected amortisation profile and the Class A-2 projected amortisation profile are the projected principal amounts outstanding of the Class A-1 Notes and the Class A-2 Notes, respectively, following the July Interest Payment Date following each Accounting Period less the Projected Spread. It assumes that (i) a Savings Surplus Election will be made to the extent required and (ii) the Pre-Enforcement Priority of Payments is applicable.



Accounting Period ending in March	Projected Insurance Surplus €m <sup>1</sup>	Projected Savings Surplus €m <sup>2</sup>	Projected Spread <sup>3</sup>	Class A-1 projected amortisation profile <sup>4</sup> €m	Class A-2 projected amortisation profile <sup>4</sup> €m
2026					
2027					
2028					
2029					
2030					
2031					
2032					

The projections have been calculated on the basis of data as at [●] March [●] and the assumptions permitted under the Calculation Agreement as at such date.

4. A statement confirming whether there have been:
- (a) any drawings on the Liquidity Facility;
  - (b) any payments under the Ambac Financial Guarantee;
  - (c) any payments under the Ambac Liquidity Facility Financial Guarantee;
  - (d) any Amortisation Events (and if so, which);
  - (e) any Acceleration Event (and if so which); or
  - (f) any Dividend Stopper (and if so which and whether the Dividend Stopper Period is continuing).

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