Memo

Barclays Capital

To **SCM Approvals Committee**

From Iain Abrahams

Date 12 October 2007

Subject Approvals paper – Project Valiha

BARCLAYS

1 SUMMARY

Structured Capital Markets ("**SCM**") is seeking approval for Project Valiha (the "**Transaction**") with Credit Suisse in the UK (the "**Counterparty**").

Barclays Bank PLC ("**Barclays**") is currently party to a number of sterling denominated, fixed floating interest rate swaps with two of its affiliates ("**CayCo1**", a Cayman incorporated, UK tax resident subsidiary and "**UKSub2**", a UK incorporated and tax resident subsidiary). Since these interest rate swaps were entered into, sterling interest rates have moved such that they are now standing at a material gain for Barclays of £[381.4]m. The terms of the interest rate swaps are such that when considered together, Barclays has an economic exposure akin to a fixed rate amortising loan. The proposed Transaction will involve transferring the value in these swaps from Barclays to the Counterparty without triggering a taxable gain.

Although it is proposed that the Transaction will involve all of the interest rate swaps between Barclays and CayCo1 ("**Tranche 1**") and between Barclays and UKSub2 ("**Tranche 2**"), for simplicity the transaction description and detailed analyses in this paper will refer only to the entities and instruments relating to Tranche 1 (unless specifically stated otherwise).

Economic Benefit

The interest rate swaps between Barclays and its affiliates are £[381.4]m in the money for Barclays across Tranche 1 and Tranche 2. The economic benefit of the Transaction is derived from the Barclays group's ability to transfer the fair value gain on these interest rate swaps (which is currently unrealised for UK tax purposes) to the Counterparty without triggering a taxable gain. Barclays is entitled to [62.5]% of such benefit. It should be noted that the benefit arises to Barclays on a post-tax basis and to the Counterparty on a pre-tax basis, which results in a PTE benefit split of approximately [70 : 30]. 100% of the Barclays benefit will arise in 2007.

The key financial data is set out below (please see Section 9 for a summary of the Transaction economics and the impact of varying provision levels, if any):

	Pre provision (if any)	Post provision (if any) Assumes a provision level of 50%, however the final provision level has yet to be determined (see Section 9).
Proposed size of transaction	£[381.4]m	N/A
Estimated revenue	£[99.6]m	£[21.9]m
Tax capacity *Return on Tax capacity*	£[362.3][1]m *[27.5]%*	£[362.3]m *[6.0]%*
WRAs *Return on WRAs*	£[12]m (up to a max of £[74.7]m) *[133]% (based on max WRAs)*	£[12]m (up to a max of £[74.7]m) *[29]% (based on max WRAs)*
PUG	N/A	£[(48.1)]m
Tenor	Approximately 1 month	N/A

The above numbers are subject to movements in interest rates and do not include accruals or breakage amounts, therefore they are subject to change. However it is not anticipated that such movements will be material. Therefore we are seeking approval for a Transaction size of up to £[400]m.

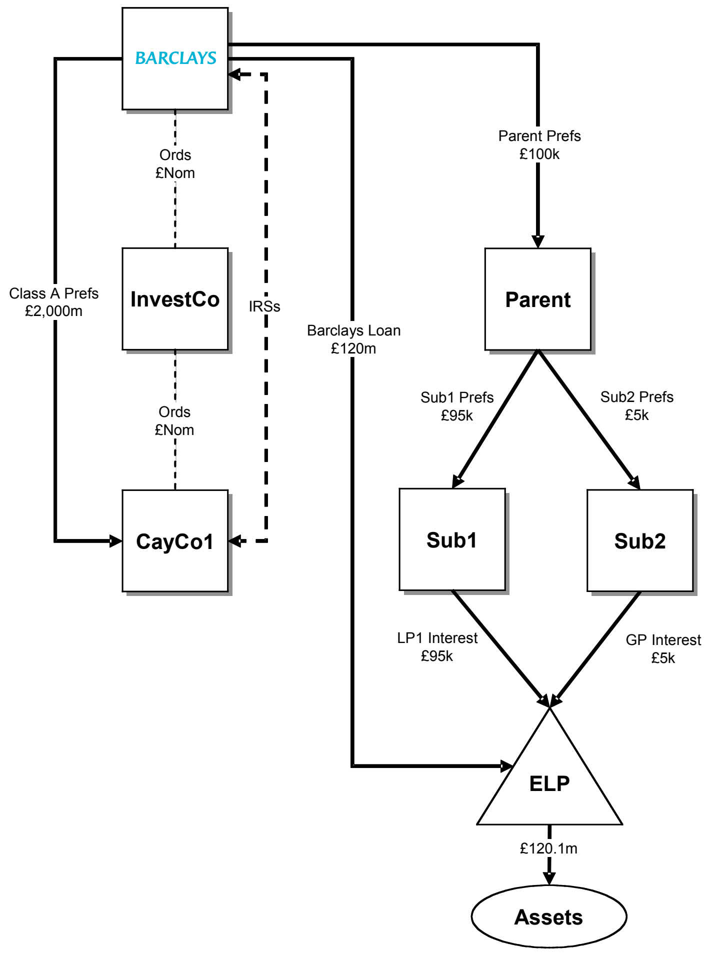
This Approvals paper contains a description of all significant tax, credit, market and operational risks.

[1] See Section 3.4 for an explanation of the way use of capacity is determined.

2 DETAILED TRANSACTION DESCRIPTION

2.1 Present Position

2.1.1 For Tranche 1, the current structure is as follows:



2.1.2 The following paragraphs provide an overview of the Transaction; however please refer to Appendix 1 for a detailed transaction description (including additional diagrams). Numbers in the transaction description which are in square brackets are subject to movements in interest rates and do not include accruals or breakage amounts, therefore they are subject to change. However it is not anticipated that such movements will be material.

2.1.3 A wholly owned, Cayman incorporated, UK tax resident investment company affiliate of Barclays ("**InvestCo**") owns all of the ordinary share capital in a Cayman incorporated, UK tax resident subsidiary ("**CayCo1**"). Both InvestCo and CayCo1 have a sterling functional currency and prepare accounts under UK GAAP and IFRS respectively.

2.1.4 Barclays owns £2,000m of redeemable preference shares in CayCo1 (the "**Class A Prefs**").

2.1.5 Barclays also owns all of the ordinary share capital in an existing UK incorporated and UK tax resident subsidiary ("**Parent**"). Parent has a sterling functional currency and prepares its accounts under UK GAAP. Parent owns all of the ordinary share capital in two existing Cayman incorporated and UK tax resident subsidiaries ("**Sub1**" and "**Sub2**"). Sub1 and Sub2 both have sterling functional currencies and prepare their accounts under UK GAAP.

2.1.6 In March 2007, CayCo1 received £48m (the then market value) to acquire ten out of the money sterling denominated interest rate swaps (the "**IRSAs**") from its wholly owned, UK incorporated and UK resident subsidiary ("**UKSub1**") (not shown). Subsequently sterling interest rates moved such that in aggregate, the IRSAs were standing at a loss of £186m in CayCo1. At that time, CayCo1 entered into a set of ten swaps with Barclays (the "**IRSBs**", and together with the IRSAs, the "**IRSs**") such that Barclays had an economic exposure akin to that of a fixed rate amortising loan of £186m.

2.1.7 Barclays designated the IRSs as post-tax fair value hedges of its investment in the Class A Prefs. CayCo1 has made a Reg 6(5B) election.

2.1.8 Since March 2007, interest rates have moved further such that Barclays' in the money position under the IRSs is £[190.7]m.

2.1.9 In October 2007, Barclays capitalised Parent with £100k of redeemable preference shares (the "**Parent Prefs**"). Parent then capitalised Sub1 and Sub2 with £95k and £5k of redeemable preference shares respectively (the "**Sub1 Prefs**" and the "**Sub2 Prefs**").

2.1.10 Sub1 and Sub2 used the capitalisation proceeds of the Sub1 Prefs and the Sub2 Prefs to form an English limited partnership ("**ELP**"). Under the limited partnership agreement (the "**LP Agreement**"), Sub1 holds the "**LP1 Interest**" and Sub2 holds the "**GP Interest**" in ELP. The LP1 Interest and the GP Interest are entitled to 95% and 5% respectively of ELP's profits and losses and ELP's assets on a winding up/upon leaving the partnership. Sub2 as general partner holds 100% of the voting rights in ELP.

2.1.11 Barclays then made a £120m loan to ELP (the "**Barclays Loan**") which ELP used to acquire £120m of gilts.

2.2 Proposed Transaction

2.2.1. On the first day of closing ("**Day 1**"), Barclays will enter into a novation agreement with CayCo1 and Sub1 whereby it will novate its in the money legs of the IRSs to Sub1 in exchange for £[190.7]m, being the market value of the IRSs. Sub1 will use the proceeds from issuing an additional £[190.7]m of Sub1 Prefs to Parent to fund its payment to Barclays for acquisition of the IRSs (the "**Novation Payment**").

2.2.2. The [following] day ("**Day 2**"), Sub1 and CayCo1 will agree to novate the IRSs to ELP and Sub2 will make a cash contribution to ELP of £[1.5]m in exchange for which, ELP will credit the capital account of Sub1 with £[190.7]m reflecting the fair value of the IRSs contributed and will credit the capital account of Sub2 with £[1.5]m. The terms of the LP Agreement will be amended to entitle the LP1 Interest holder to a preferred entitlement on liquidation (the "**LP1 Preferred**") of £[162.3]m with the rest of ELP's residual assets being distributed in proportion to the profit sharing ratio of [95 : 5].

2.2.3. ELP will draw up management accounts for the accounting period ended on Day 2.

2.2.4. On the final day of closing ("**Day 3**"), Counterparty will subscribe for a £[182.7]m limited partnership interest in ELP (the "**LP2 Interest**") which will entitle Counterparty to [95]% of ELP's profits and losses and ELP's assets on a winding up (after taking into account the LP1 Preferred). The LP2 Interest holder will have no voting rights but will have the right to retire from the partnership on [5] business days' notice in exchange for cash proceeds equal to its share of the fair value of ELP's net assets (the "**Termination Entitlement**").

2.2.5. The LP2 Interest will also be redeemable at fair value at the option of Sub2 (on behalf of ELP) on [5] business days' notice.

2.2.6. Sub2 will continue to hold 100% of the voting rights in ELP. However, the proportion of profits and losses, and assets on a winding up/retirement from the partnership to which the LP1 Interest and the GP Interest are entitled will be reduced to [4.75]% and [0.25]% respectively.

2.2.7. Sub2 will enter into an agreement with Barclays (the "**Management Agreement**") to delegate the day to day running of ELP to Barclays, subject to the provisions of the LP Agreement which will be amended to specify that ELP may only invest in specified classes of assets.

2.2.8. ELP will use the £[182.7]m proceeds from issuing the LP2 Interest to repay the £120m Barclays Loan with the balance being kept on deposit with Barclays or invested in additional sterling denominated treasury bills or gilts.

2.2.9. Barclays and Counterparty will each guarantee the performance and/or obligations of their relevant affiliates under the Transaction.

2.2.10. At some time after Day 3, the IRSs will either mature or may be terminated prior to their scheduled maturity at the option of either CayCo1 or Sub2 (as general partner of ELP). If the IRSs are terminated prior to their scheduled maturity, CayCo1 will borrow £[190.7]m from Barclays (the "**CayCo1 Loan**") to pay ELP the termination value of the IRSs (the "**Termination Payment**").

2.2.11. It is anticipated that sometime after the IRSs have matured or been terminated, the Transaction will be unwound. Counterparty may choose to retire from the partnership in exchange for cash proceeds in accordance with the LP Agreement. Alternatively Sub2 may give notice and redeem the LP2 Interest or liquidate ELP, disposing of the Assets and distributing the proceeds in the ratios provided for in the LP Agreement.

2.3 Tranche 2

2.3.1. The IRSs relating to Tranche 2 are currently (and have always been) between Barclays and UKSub2 rather than between Barclays and CayCo1. UKSub2 is a UK incorporated and UK tax resident company which prepares its accounts in sterling under UK GAAP. UKSub2 is a wholly owned subsidiary of "**CayCo2**", a Cayman incorporated UK tax resident affiliate of Barclays. Therefore in applying the Transaction steps described above, the role of CayCo1 will be carried out by UKSub2.

2.3.2. UKSub2 currently holds the IRSs as a hedge of floating rate certificates of deposit (the "**FRCDs**") that it previously acquired from Barclays. Barclays will redeem the FRCDs before the year end.

3. ECONOMICS AND ECONOMIC DRIVERS

3.1 The Tranche 1 and Tranche 2 IRSs each currently have a market value of £[190.7]m respectively i.e. a total in the money position for Barclays of £[381.4]m.

3.2 Currently, Barclays is taxed on the IRSs on an accruals basis. The economic benefit of the Transaction is derived from the fact that the Barclays group is able to transfer the gain on the Barclays legs of the IRSs to the Counterparty without triggering a taxable gain on the increase in fair value of the IRSs since their inception.

3.3 100% of the Transaction benefit is realised in 2007 and Barclays is entitled to [62.5]% of the benefit.

3.4 The total tax capacity relating to the Transaction of £[362.3]m is determined as follows:

3.4.1 £[190.7]m of tax capacity relating to the IRSs has been used in CayCo1 in 2007 irrespective of whether the Transaction takes place or not;

3.4.2 £[190.7]m of tax capacity relating to the IRSs will be used in UKSub2 when the FRCDs that UKSub2 holds (and which are currently being hedged in UKSub2 by the IRSs) are disposed of (anticipated to be on [7 December 2007]); and

3.4.3 £[19.1]m of tax capacity will be created by the Transaction in Sub1 and Sub2. This capacity will be created in 2007.

3.4.4 Thus viewed over the full term of the original swaps, this Transaction uses £[362.3]m of capacity.

3.5 Refer to Section 9 for a summary of the impact of different provision levels (if any) on the Transaction economics.

3.6 Assuming ELP's gilt portfolio is disposed of by 31 December 2007 at the latest, the expected cost associated with holding the gilts should not exceed £300k.

4 INTENDED TAX TREATMENT

4.1 Barclays Tax Analysis

The Transaction has been discussed with Slaughter & May and the following summary is supported by a draft UK tax opinion attached at Appendix 2.

Barclays

4.1.1 The IRSs are designated as a fair value hedge of the Class A Prefs therefore fair value movements on both the IRSs and the Class A Prefs are recognised in the income statement. The Reg 6(5B) election made by Barclays is disregarded by virtue of Reg 6(5A)(a), therefore Reg 9 should apply to bring the debits and credits arising on the IRSs into account on an accruals basis.

4.1.2 Paragraph 28, Sch 26 FA2002 should apply to the transfer of the IRSs to Sub1 such that Barclays is treated as disposing of the IRSs for a consideration equal to their notional carrying value as determined for tax purposes under an appropriate accruals basis. Therefore for tax purposes, Barclays should not recognise any gains or losses on the transfer of the IRSs to Sub1.

InvestCo

4.1.3 The Transaction should have no material UK tax implications for

InvestCo.

CayCo1

4.1.4 The IRSs are recognised as derivatives with fair value movements recognised in the income statement. CayCo1 made a Reg 6(5B) election and the IRSs are not designated as a hedge of any instruments in CayCo1, therefore Reg 9 does not apply so that debits and credits are brought into account on a fair value basis.

Parent

4.1.5 The Transaction should have no material UK tax implications for Parent.

Sub1

4.1.6 Once Sub1 becomes party to the IRSs following the novation, relevant credits and debits would be brought into account on an accruals basis. Paragraph 28, Sch 26, FA2002 applies to the novation. Therefore for the purposes of determining such credits and debits Sub1 should be deemed to have acquired the IRSs for their notional carrying value as determined by Barclays under Reg 9 on the date immediately before the novation (i.e. approximately nil).

4.1.7 No debits or credits should be brought into account as a result of novation of the IRSs to ELP. Following the novation of the IRSs to ELP, Sub1 should be deemed under paragraph 49, Sch 26, FA2002 as owning the IRSs and will continue calculating credits and debits on the IRSs on an accruals basis, bringing [95]% of those credits and debits into account.

4.1.8 Following the admission of the Counterparty as a partner in ELP the share of credits and debits brought into account as discussed in 4.1.7 above will be reduced to [4.75]%. In particular, on termination of the IRSs Sub1 will be taxable on [4.75]% of the gain determined against a notional carrying value of approximately nil.

Sub2

4.1.9 No debits or credits should be brought into account as a result of the novation by Sub1 of the IRSs to ELP. As a partner in ELP, Sub2 should be deemed under paragraph 49, Sch 26, FA2002 as owning the IRSs and will calculate credits and debits on the IRSs on an accruals basis and bring [5]% of those credits and debits into account.

4.1.10 Following the admission of the Counterparty as a partner in ELP the share of credits and debits brought into account as discussed in 4.1.9 above will be reduced to [0.25]%. Similarly to paragraph 4.1.8, on termination of the IRSs Sub2 will be taxable on [0.25]% of the gain determined against a notional carrying value of approximately nil (on the basis that Sub 2 acquired its interest in the IRSs under paragraph 28, Sch 26, FA2002).

ELP

4.1.11 ELP is not a taxable entity in the UK.

UKSub2

4.1.12 UKSub2 accounts for the IRSs as a hedge of an investment the FRCDs and recognises income on an accruals basis. Accordingly any credits and debits on the IRSs are brought into account on an accruals basis.

4.1.13 After termination of the IRSs fair value losses will be amortised (and brought into account) over the remaining 19 year term of the FRCDs or if the FRCDs are disposed of or redeemed (it is anticipated that the FRCDs will be redeemed before the year end), the full fair value debits would be brought into account at such earlier time.

CayCo2

4.1.14 The Transaction should have no material UK tax implications for CayCo2.

4.2 **Counterparty Tax Analysis**

4.2.1 Counterparty is a UK resident financial trader. Therefore after becoming a partner in ELP it should be taxable in respect of its interest in the IRSs on a fair value basis under paragraph 50, Sch 26, FA2002.

4.3 **Disclosure Regulations**

4.3.1 The disclosure position is to be determined.

5 TAX RISK

Having had discussions with Slaughter and May, the following is SCM's assessment of the key tax risks:

Gain on Novation to ELP

5.1 The analysis of the Transaction concludes that there should be no credits or debits arising to Sub1 as a result of the novation of the IRSs to ELP. This analysis is based on the application of paragraph 49, Sch 26, FA2002 which deems Sub1 as being party to the IRSs held by ELP. The expected effect of this deeming is that either:

5.1.1 Sub1 is treated as a party to the IRSs prior to and after the novation and therefore there is no disposal of the IRSs by Sub1 and therefore no related transaction, or

5.1.2 Even if the novation were a related transaction, the UK GAAP accounts prepared by Sub1 on the basis of such statutory fiction would show no credits or debits since Sub1 would have to determine the effects of the disposal of the IRSs to itself.

5.2 If the above analysis were not correct, Sub1 would have to determine credits arising on the novation of the IRSs to ELP and for these purposes the carrying value of the IRSs would be based on the notional carrying value of the IRSs as determined for tax purposes by Barclays under Reg 9 on a date immediately before the novation to Sub1 (i.e. approximately nil).

Para 23

5.3 The nature of the Transaction means that there are a number of debits and credits arising on a mark to market basis in CayCo1, or on an accruals basis in UKSub2. It is necessary to consider the risk that paragraph 23, Sch 26 FA2002 ("**Para 23**") may apply to the Transaction such that debits on the IRSs are disallowed.

5.4 The IRSs were entered into as part of a previously approved UK accretive transaction. Debits arising to CayCo1 on the IRSs to date and to UKSub2 on the eventual disposal of the FRCDs which the IRSs are hedging would be claimed regardless of whether the Transaction is implemented or not.

Para 13

5.5 There are debits and credits arising to Barclays and its UK tax resident affiliates on internal loans, in particular on the Barclays Loan to ELP. It is necessary to consider the risk that paragraph 13, Sch 9 FA1996 ("**Para 13**") may apply to the Transaction such that debits on the internal loans are disallowed.

5.6 The Barclays Loan was made in order to enable ELP to purchase the Assets and the relevant debits will arise regardless of whether the Transaction takes place. Furthermore, for any debts arising to Barclays and its affiliates in respect of the internal loans (including the Barclays Loan) there will be equal and opposite credits arising to Barclays or its affiliates taxable in the UK.

6. ACCOUNTING

6.1 The below accounting treatments have been discussed with SCM Finance and will be confirmed with PwC prior to closing.

6.2 It is intended that ELP, Sub1, Sub2, Parent and UKSub2 will prepare or continue to prepare accounts under UK GAAP. Subject to approval by the BarCap CFO, confirmation that the relevant entities can prepare or continue to prepare accounts under UK GAAP will be obtained from Chris Lucas, Group CFO, prior to closing.

Barclays Solus

6.3 Barclays prepares its solus accounts under IFRS.

6.4 The IRSs have been designated as a fair value hedge of the Class A Prefs. Barclays treats the IRSs as derivatives and accounts for them on a fair value basis with any fair value gains or losses recognised in the income statement under IAS39. Barclays is taxed in respect of the IRSs on an accruals basis. Accordingly Barclays recognises a deferred tax liability under IAS12 on the difference between the carrying value of the IRSs and their tax base, taking the tax expense to the income statement (IAS12.58).

6.5 On Day 1, novation of the IRSs to Sub1 will result in Barclays derecognising them in its accounts. At that time Barclays will cease to be liable to tax in respect of the difference between the carrying and fair market values of the IRSs. Therefore the deferred tax liability will be reversed through the income statement.

CayCo1 Solus

6.6 CayCo1 prepares accounts under IFRS.

6.7 CayCo1 treats the IRSs as derivatives under IAS39 and accounts for them on a fair value basis with any fair value gains or losses recognised in the income statement. CayCo1 is taxed on the IRSs on a fair value basis with the relevant current tax impact recognised in the accounts on a current basis.

6.8 CayCo1 will continue recognising the IRSs on the same basis after novation of the Barclays' legs to Sub1.

UKSub2 Solus

6.9 UKSub2 prepares accounts under UK GAAP and does not adopt FRS26.

6.10 UKSub2 treats the IRSs as derivatives and accounts for them as a hedge of a 19 year loan asset (i.e. the FRCDs) on an accruals basis. On disposing of the FRCDs any unrealised loss on the IRSs is taken immediately to the profit and loss account.

6.11 UKSub2 is taxed on the IRSs on an accruals basis, with the relevant current tax impact recognised in the accounts on a current basis.

ELP Solus

6.12 ELP prepares accounts under UK GAAP and does not adopt FRS26.

6.13 ELP recognises the GP Interest as equity under FRS25 since it is not redeemable at the option of the holder or at a fixed future date. Upon the receipt of a further contribution from Sub2 on Day2, the equity would be increased accordingly.

6.14 ELP recognises the LP1 Interest as equity under FRS25 since it is not redeemable at the option of the holder or at a fixed future date. On novation of the IRSs to ELP and the corresponding increase in ELP's capital, the equity would be increased accordingly.

6.15 ELP will recognise the LP2 Interest as a liability (FRS25.18(a), AG25) as it is redeemable at any time on [5] business days' notice at the option of the holder.

6.16 ELP treats the Assets as debt investments with the relevant interest income recognised in the profit and loss account on an accruals basis.

6.17 ELP will recognise the IRSs as an investment in a synthetic amortising fixed rate loan under FRS5, with the respective interest income recognised on an accruals basis.

6.18 Taxes arising on the IRSs held by ELP will be imposed on its partners (Sub1 and Sub2) but will be born by ELP under the terms of the Tax Payment Agreement. Any payments made by ELP under the Tax Payment Agreement will be recognised as tax in its profit and loss account. There will be no timing differences arising to ELP in respect of the IRSs and therefore no deferred tax liability would be provided in this respect.

Sub1 Solus

6.19 Sub1 prepares accounts under UK GAAP and does not adopt FRS26.

6.20 Sub1 recognises the Sub1 Prefs as a liability under FRS25 as they are redeemable at any time at the option of the holder on 1 business day's notice.

6.21 Sub1 will treat the investment in the IRSs as an investment in a synthetic amortising fixed rate loan under FRS5, with the respective interest income recognised on an accruals basis.

6.22 Taxes imposed on Sub1 in respect of its interest in ELP as well as the payments received from ELP under the Tax Payment Agreement will be recognised as tax items in the profit and loss account. There will be no timing differences arising to Sub1 in respect of the IRSs and therefore no deferred tax liability would be provided in this respect.

6.23 On Day 2 Sub1 will derecognise the IRSs and will instead recognise an investment in an affiliate at the carrying amount of the IRSs. Accordingly no profits will be recognised on contribution of the IRSs to ELP.

6.24 On Day 3 when Counterparty subscribes for the LP2 Interest, Sub1 will recognise an impairment loss in respect of its investment in ELP.

Sub2 Solus

6.25 Sub2 prepares accounts under UK GAAP and does not adopt FRS26.

6.26 Sub2 recognises the Sub2 Prefs as a liability under FRS25 as they are redeemable at any time at the option of the holder on 1 business day's notice.

6.27 Sub2 recognises the investment in ELP at cost.

6.28 On Day 3 when Counterparty subscribes for the LP2 Interest, Sub2 will recognise an impairment loss in respect of its investment in ELP.

Parent Solus

6.29 Parent prepares accounts under UK GAAP and does not adopt FRS26.

6.30 Parent recognises the Parent Prefs as a liability under FRS25 as they are redeemable at any time at the option of the holder on 1 business day's notice.

6.31 Parent recognises its investments in Sub1 and Sub2 at cost.

Barclays Consolidated

6.32 Barclays prepares consolidated accounts under IFRS.

6.33 Barclays has sole control of Parent, Sub1, Sub2, ELP, UKSub2 and CayCo1 and therefore consolidates them as its subsidiaries under IAS27.

6.34 Barclays treats the Assets as financial assets available for sale under IAS39, and therefore recognises them at fair value (IAS39.46) with interest recognised in the income statement using an effective interest method (AS39.55(b)), and changes in fair value being recognised directly in equity.

6.35 The current tax asset arising in CayCo1 on the IRSs is currently recognised in the consolidated accounts. As the current tax asset cannot be eliminated on consolidation, the corresponding deferred tax liability in respect of Barclays' solus position in the IRSs is also currently recognised in the consolidated accounts.

6.36 UKSub2's IFRS equivalent accounts (for consolidated purposes) would show a current tax asset in respect of the IRSs. This current tax asset relates to the fair value loss in the IRSs which Barclays will crystallise before the end of the year by redeeming the FRCDs that the IRSs are used to hedge. As the current tax asset cannot be eliminated on consolidation, the corresponding deferred tax liability in respect of Barclays' solus position in the IRSs is also recognised in the consolidated accounts.

6.37 On Day 1, once the IRSs are novated to Sub1, Barclays will reverse the deferred tax liability in respect of the IRSs and will provide for the deferred tax liability in respect of Sub1's position in the IRSs for similar reasons to those set out in 6.35and 6.36above. On Day 2, Barclays will reverse the deferred tax liability in respect of Sub1's position under the IRSs and will instead provide for the deferred tax liability in respect of ELP's position in the IRSs.

6.38 On Day 3, following the admission of the Counterparty as a partner, the terms and the scope of ELP's activities will be amended in accordance with the agreed deal terms and as a result will become narrowly defined. Therefore ELP will become a SIC-12 entity. From that point, Counterparty will become entitled to the majority of the benefits and exposed to the majority of the risks incident in the assets and the activities of ELP. Accordingly Barclays will cease consolidating ELP in accordance with SIC-12. At that point Barclays will be treated as having disposed of its subsidiary and will recognise a profit on disposal of ELP in the consolidated income statement equal to the excess of the disposal proceeds over the carrying value (as calculated under IFRS) of ELP's net assets (IAS27.30). The carrying value of the consolidated net assets will include the deferred tax liability recognised by Barclays in respect of the IRSs held by ELP.

6.39 Following the admission of the Counterparty as a partner, Barclays will recognise the investment in the LP1 Interest and the GP Interest as well as the liability under the IRSs at their respective fair values (IAS39.43).

6.40 There should be no material differences between Barclays consolidated IFRS analysis and its consolidated US GAAP analysis.

7. CREDIT AND MARKET RISK

7.1 Due to the nature of the Assets (sterling denominated UK gilts with a remaining maturity of 5 months) the credit risk and market risk associated with the Assets should not be material. This was discussed and agreed with Credit and Market risk prior to acquisition of the Assets by ELP.

7.2 Sub2 (a wholly owned Barclays subsidiary) as GP will always have 100% voting control of ELP. In addition, ELP will repay the Barclays Loan using the proceeds from issuing the LP2 Interest therefore there should be no material credit risk on the Barclays Loan.

7.3 In the event any Credit approval is required (for example in respect of the acquisition of additional gilts by ELP), this will be obtained by SCM through GFRM via the normal process.

7.4 The economic profile of the IRSs taken together will be equivalent to a fixed rate amortising loan. Across both tranches of the Transaction, the total fair value of this loan is currently £[381.4]m. Although there will be ongoing movements in the fair market value of the IRSs/loan, this is not expected to be material during the closing period. Whilst the volatility will affect the overall size of the transaction, the variation will impact both Barclays and the Counterparty in accordance with the agreed benefit split.

8. REGULATORY CAPITAL

8.1 Basel I

Barclays solus:

8.1.1 The additional Parent Prefs are treated as debt for regulatory purposes and therefore generate internal LE of £[381.4]m on Day 1 across the two tranches. However, also on Day 1, the IRSs are novated from Barclays to Sub1. Currently Barclays is marking internal LE of £492m (including add-ons) in respect of the IRSs which will no longer be necessary once they are novated to Sub1. Since the existing Parent Prefs generate internal LE of £100k, on Day 1 upon novation of the IRSs, the overall internal position will be reduced by £[110.5]m.

8.1.2 On Day 2, an additional £[3.0]m of internal LE across the two tranches will arise on the further capitalisation of Parent (i.e. the issue of £[3.0]m of additional Parent Prefs).

8.1.3 Upon Counterparty subscribing for the LP2 Interest, Barclays will guarantee the obligations of CayCo1 (and of UKSub2) under the IRSs. Therefore on Day 3 internal LE of £[381.4]m will arise across Tranche 1 and Tranche 2 in respect of this exposure. In the event the IRSs are terminated early, the guarantee by Barclays will no longer be required. However internal LE will arise on the CayCo1 Loan (and also on any loan from Barclays to UKSub2) – anticipated to be a total of £[381.4]m across the two tranches.

8.1.4 The £120m internal LE arising on the Barclays Loan has been mitigated by virtue of ELP pledging the Assets (eligible collateral for regulatory purposes) in support of its obligations under the Barclays Loan.

8.1.5 In aggregate, an additional £[273.9]m of additional internal LE will arise as a result of the proposed transaction steps such that the total internal LE position is £[765.9]m. Treasury Concession will be required for this internal large exposure, subject to approval from BarCap and Group Treasury. To the extent that cash received by ELP upon early termination of the IRSs is repatriated to Parent, Parent may use these proceeds to partially redeem the Parent Prefs and hence reduce the amount of internal LE.

8.1.6 The Sub1 and Sub2 capital accounts of £[381.5]m and £[3.0]m respectively (across both tranches) will be treated as equity in their respective solus accounts for accounting and regulatory purposes. Barclays could unwind the structure and cause the LP1 Interest and the GP interest to be redeemed on short notice (within 10 business days). Therefore there should not be any issues in respect of "connected lending of a capital nature" and hence no deduction from solus capital. ELP should not be a taxable entity for UK tax purposes therefore HMRC should not be a creditor and ELP should not have any other external senior creditors.

***Barclays consolidated**:*

8.1.7 Barclays currently consolidates CayCo1 and UKSub2 for regulatory purposes. Barclays will also consolidate Parent, Sub1, Sub2 and ELP for regulatory purposes. ELP will continue to be consolidated after Counterparty has subscribed for the LP2 Interest since the Barclays Group will retain control of ELP, even though Barclays will cease consolidating ELP for accounting purposes.

8.1.8 10% WRAs should continue to be marked on the Assets since they comprise fixed rate Zone A central government paper with a remaining maturity of less than one year. In the event that ELP uses the proceeds from issuing the LP2 Interest and terminating the IRSs to acquire further gilts or UK Treasury bills (after repaying the £120m Barclays Loan), since it is anticipated that these assets will also be 10% weighted, up to £[62.7]m additional WRAs may arise (10% of (2 x £[182.7]m - £120m + £[381.4]m).

8.1.9 To the extent the proceeds from issuing the LP2 Interest and terminating the IRSs are simply put on deposit with Barclays, no additional WRAs would arise.

8.2 Basel II

***Barclays solus**:*

8.2.1 Parent, Sub1, Sub2 and ELP will have their centre of management and interests in the UK and should fall within the UKIG. Therefore there should be no internal LE or WRAs on the Parent Prefs, the Sub1/Sub2 Prefs, Sub1's capital account or Sub2's capital account.

Barclays consolidated:

8.2.2 Barclays will consolidate CayCo1, UKSub2, Parent, Sub1, Sub2 and ELP for regulatory purposes. ELP will continue to be consolidated after Counterparty has subscribed for the LP2 Interest since the Barclays Group will retain control of ELP, even though Barclays will cease consolidating ELP for accounting purposes.

8.2.3 The WRAs on the Assets (including any additional gilts or UK Treasury bills acquired) will be modelled using standard Probability of Default, Loss Given Default, Maturity and Exposure at Default inputs and is not expected to be significant given the nature of the assets.

8.3 The regulatory capital reporting has been agreed with Finance.

9. PROVISION

9.1 The provision level for the Transaction has yet to be determined.

9.2 The economic benefit of the Transaction at varying provision levels, based on the current estimated deal size of £[381.4]m is summarised below:

	0%	20%	30%	40%	50%
	£m	£m	£m	£m	£m
Profit on disposal of LP	69,977,834	69,977,834	69,977,834	69,977,834	69,977,834
Cost of Gilt Portfolio	(291,664)	(291,664)	(291,664)	(291,664)	(291,664)
PBT	69,686,169	69,686,169	69,686,169	69,686,169	69,686,169
Tax					
Provision	0	(21,740,686)	(32,611,029)	(43,481,372)	(54,351,715)
Current Tax	108,703,431	108,703,431	108,703,431	108,703,431	108,703,431
Deferred Tax	(108,703,431)	(108,703,431)	(108,703,431)	(108,703,431)	(108,703,431)
	0	(21,740,686)	(32,611,029)	(43,481,372)	(54,351,715)
PAT	69,686,169	47,945,483	37,075,140	26,204,797	15,334,454
PTE	99,551,670	68,493,547	52,964,486	37,435,424	21,906,362
PUG	29,573,837	(1,484,287)	(17,013,348)	(32,542,410)	(48,071,471)
Tax Capacity	362,344,770	362,344,770	362,344,770	362,344,770	362,344,770
RoTC	27.5%	18.9%	14.6%	10.3%	6.0%

10. CLIENT ENGAGEMENT

10.1 Lawrence Fletcher (Global Head), Mike Humphreys (Managing Director) and Ian Drewe (Director) from the Counterparty's Global Structuring Group were involved in originating the deal.

10.2 SCM will confirm that the deal has been approved by the relevant individuals at the Counterparty prior to close.

11. MATERIALITY OF DEAL WITH COUNTERPARTY

11.1 Key figures from the Counterparty group's (Credit Suisse Group) consolidated financial statements for the year ended 31 December 2006 are summarised in the table below using a CHF:GBP FX rate of 2.39 and have been used to estimate the impact of the Transaction on the Counterparty financial statements for the year ended 31 December 2007:

		CHFm	£m
Income Statement			
Revenue		38,603	16,152
Profit before Tax		14,300	5,983
Tax		2,389	1,000
Balance Sheet			
Gross Assets		1,255,956	525,505
Net Assets		43,586	18,237

11.2 The pre-tax benefit for the Counterparty group will be £[38.7]m based on the current valuations of the IRSs. This will increase the revenue, profit before tax and tax numbers by [0.2]% (£[38.7]m / £16,152m), [0.65]% (£[38.7]m / £5,983m) and [1.2]% (30% * £[38.7]m / £1,000m) respectively.

11.3 Gross and net assets will increase by less than [0.1]% (£[38.7]m / £525,505m) and [0.2]% (£[38.7]m / £18,237m) respectively.

12. OTHER

12.1 It is not considered that NPSO signoff is required

12.2 Barclays will not provide directors for any external entities neither will an external person be a director of any Barclays entities.

12.3 Upon subscription by the Counterparty for the LP2 Interest, ELP will be a collective investment vehicle ("**CIS**") (prior to this, a group exemption applies). However Sub2 will delegate day to day management of ELP to Barclays (an "authorised person" for these purposes) under the Management Agreement, therefore the legal requirements in respect of managing a CIS should be satisfied.

13. APPENDICES

Appendix 1 – Detailed Transaction Description

Appendix 2 – Tax Opinion from Slaughter and May