

Memo

Barclays Capital

To SCM Approvals Committee

From Michael Keeley

Date 5 February 2007

Subject Approvals Paper – Project Knight: BB&T



1. INTRODUCTION

Structured Capital Markets (“**SCM**”) are seeking approval to propose a financing transaction (“**Project Knight**”) between Branch Banking and Trust Company (“**BB&T**”) and Barclays Capital’s Luxembourg operations (“**BarLux**”).

Subject to approval by BarLux, it is intended that three separate Project Knight transactions will be executed up to a total product limit of \$[16,250]m. Separate approvals will be sought for the other two transactions in due course.

Summary

Project Knight involves BarLux establishing a new UK limited partnership (“**UKLP1**”), which subscribes \$[4,000]m for a limited partnership interest (the “**Subscriber Interest**”) in a UK limited partnership (“**UKLP2**”) established by BB&T. UKLP2 will lend its funds to a company in the BB&T group (“**BB&TSub3**”). UKLP1 will agree to retire as a partner in return for payment from BB&T in 3 years’ time.

Project Knight results in net funding of \$[4,000]m to the BB&T group, which is fully collateralised with real estate and vehicle loans from BB&T and its subsidiaries.

UKLP1 will receive an enhanced pre-tax return from its investment in the Subscriber Interest.

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

Economic Benefit

The economic benefit of the transaction is derived from the fact that UKLP1’s pre-tax return from the Subscriber Interest represents an above-LIBOR return on the investment made. Though the majority of the income received by UKLP1 will have been subject to US withholding tax at 30%, it is not expected to be subject to further taxation in Luxembourg.

BB&T achieves an effective funding rate of 40 bps below LIBOR, which equates to a split between Barclays and BB&T on a pre-tax equivalent basis in the ratio of approximately 80:20 in Barclays’ favour.

Key financial data for the transaction is set out below based on the proposed lending of \$[4,000]m and assuming a 3-year USD swap rate of 5.1%:

Product Limit	\$[16,250]m* (\$[4,000]m for BB&T transaction)
Estimated PTE revenue (Barclays consolidated)	\$[65]m p.a. (Pre-Provision)
Tax capacity <i>Return on Tax capacity</i>	\$[205]m [31.7]% (Pre-Provision)
PUG	\$[0] (Pre-Provision ¹)
Tenor	[3] years
WRAs	\$[813]m

* Product limit amount is the aggregate for all 3 contemplated Knight transactions.

SCM propose a provision of 40% and based on this the post-provision annual economics are as follows:

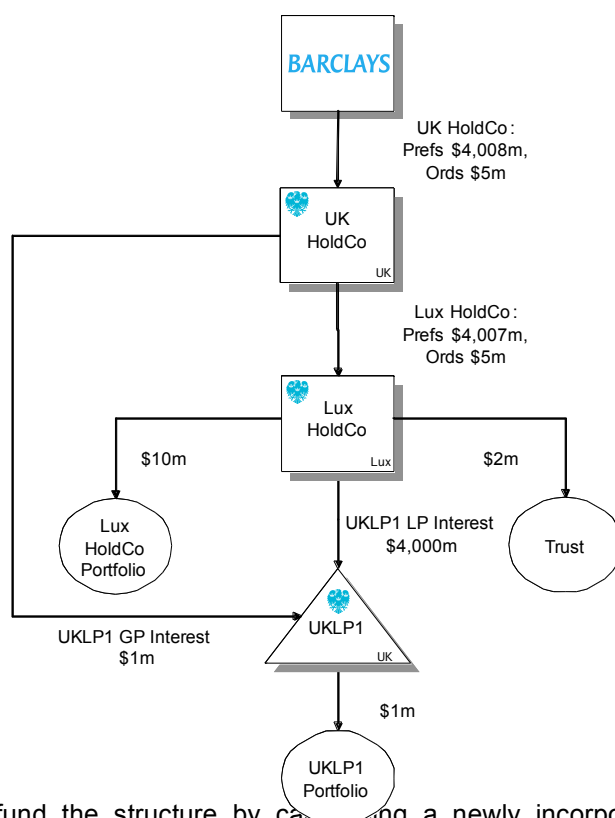
Product Limit	[\$[16,250]m* ([4,000]m for BB&T transaction)
Estimated PTE revenue (Barclays consolidated)	[\$[32]m p.a. (Post-Provision)
Tax capacity <i>Return on Tax capacity</i>	[\$[205]m [15.6]% (Post-Provision)
PUG	Negative \$[32]m p.a. (Post-Provision)
Tenor	[3] years
WRAs <i>Return on WRAs</i>	[\$[813]m [3.9]% (Post-Provision)

* Product limit amount is the aggregate for all 3 contemplated Knight transactions.

2. TRANSACTION DESCRIPTION

2.1 Funding Structure

Establishment and Funding of UKLP1



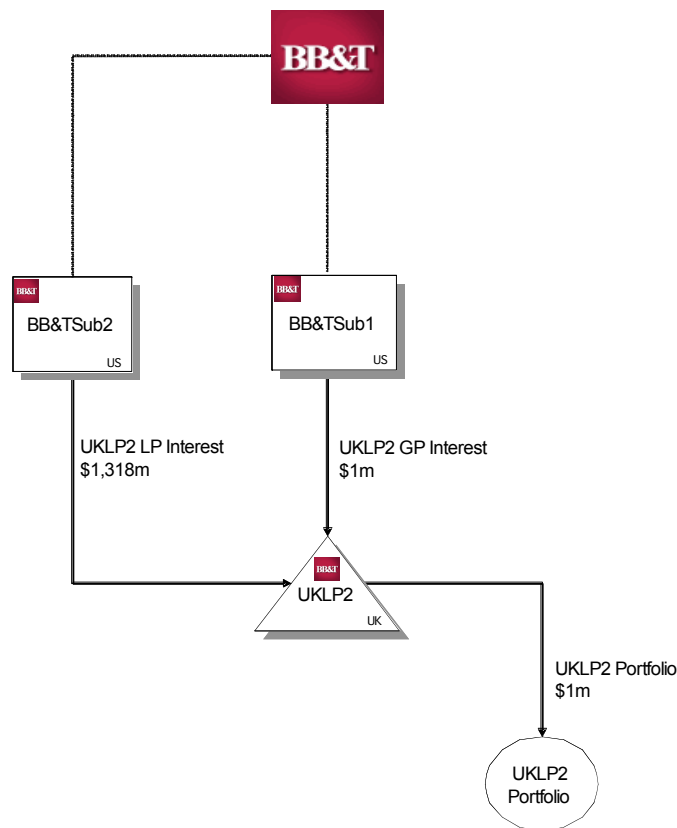
2.1.1 Barclays will fund the structure by capitalising a newly incorporated Cayman Islands limited company which will be tax resident in the UK (“**UK HoldCo**”), which will in turn capitalise a Luxembourg S.a.r.l. (“**Lux HoldCo**”). Lux HoldCo will be set up and operated by Barclays Capital Luxembourg S.a.r.l. (“**BCL**”) and will have access to the necessary staff and premises to conduct its activities via a silent partnership agreement with BCL.

2.1.2 Barclays will subscribe \$[4,008]m for the preference shares in UK HoldCo (the “**UK HoldCo Prefs**”) and \$[5]m for the ordinary shares in UK HoldCo (the “**UK HoldCo Ords**”).

- 2.1.3 UK HoldCo will subscribe \$[4,007]m for preference shares in Lux HoldCo (the “**Lux HoldCo Prefs**”) and \$[5]m for the ordinary shares in Lux HoldCo (the “**Lux HoldCo Ords**”).
- 2.1.4 Lux HoldCo will subscribe \$[4,000]m for the limited partnership interest in UKLP1 (the “**UKLP1 LP Interest**”) and UK HoldCo will subscribe \$[1]m for the general partnership interest in UKLP1 (the “**UKLP1 GP Interest**”).
- 2.1.5 Lux HoldCo will invest \$[10]m in a portfolio of high-grade US Dollar-denominated debt securities (the “**Lux HoldCo Portfolio**”) and \$[2]m in a trust as detailed in Appendix 2.
- 2.1.6 UKLP1 will invest \$[1]m in a portfolio of high-grade US Dollar-denominated debt securities (the “**UKLP1 Portfolio**”).
- 2.1.7 A detailed description of the funding and the steps required to mitigate the Luxembourg Capital Duty is provided in Appendix 1

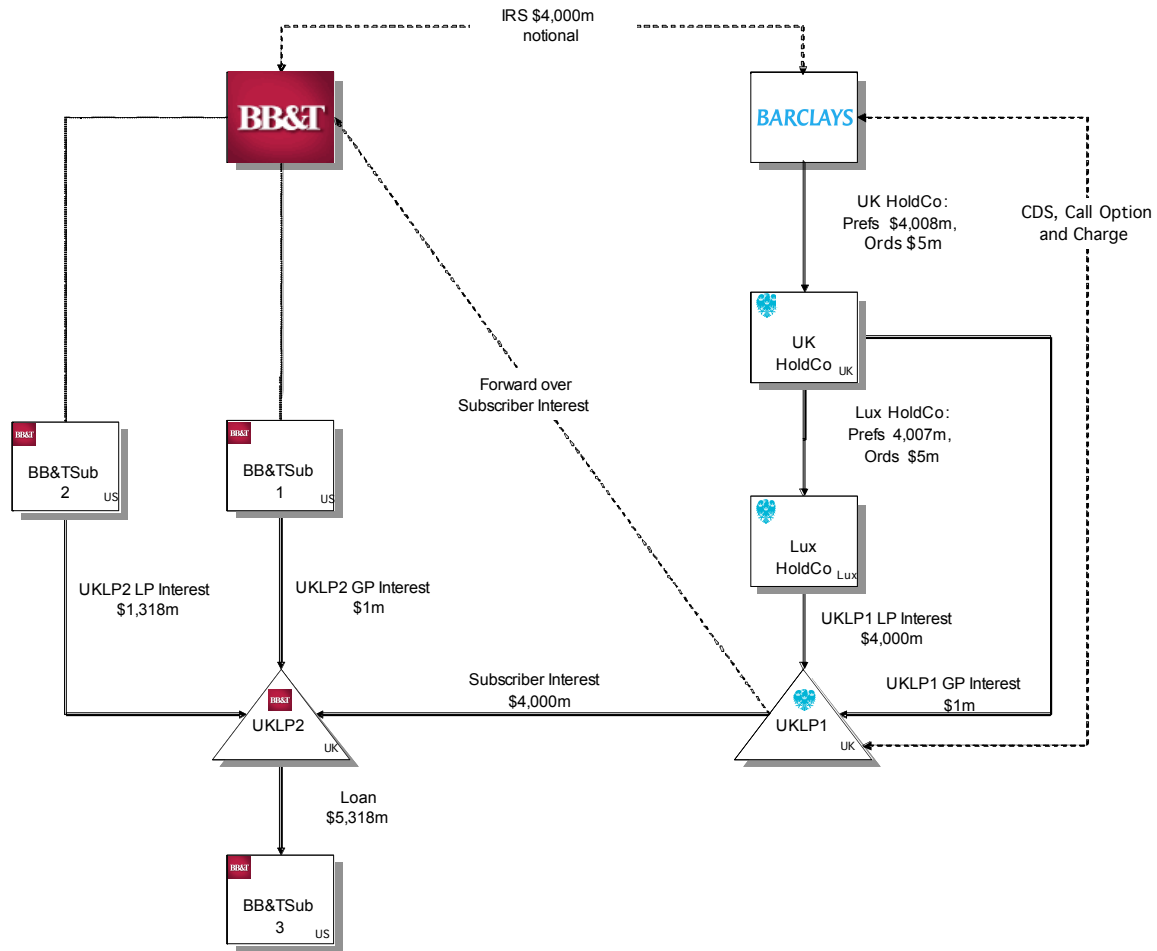
2.2 Investment Structure

Establishment and Funding of UKLP2



- 2.2.1 BB&T will form two Delaware limited liability companies (“**BB&TSub1**” and “**BB&TSub2**”). BB&TSub1 and BB&TSub2 will form an English law limited partnership (“**UKLP2**”). BB&TSub1 will subscribe \$[1]m for a general partnership interest in UKLP2 (the “**UKLP2 GP Interest**”), and BB&TSub2 will subscribe \$[1,318]m for a limited partnership interest in UKLP2 (the “**UKLP2 LP Interest**”).
- 2.2.2 BB&T will also form BB&TSub3, a Delaware corporation.
- 2.2.3 UKLP2 will invest \$[1]m in a portfolio of high-grade US Dollar-denominated debt securities (the “**UKLP2 Portfolio**”).

Subscriber Interest and Retirement Agreement



- 2.2.4 BB&T will enter into an agreement with UKLP2 (the “**Procurement Agreement**”) to procure a third party to subscribe \$[4,000]m for the Subscriber Interest, or failing that, to do so itself.
- 2.2.5 Pursuant to an invitation letter (the “**UKLP1 Invitation Letter**”), BB&T will invite UKLP1 to subscribe for the Subscriber Interest and thereby to become a partner in UKLP2.
- 2.2.6 As described above, UKLP1 will subscribe \$[4,000]m for the Subscriber Interest.
- 2.2.7 The UKLP2 partnership agreement (the “**Partnership Agreement**”) will provide that:
- The Subscriber Interest will entitle the holder to monthly distributions of [99]% of the first \$[271]m of gross annual income of UKLP2;
 - The UKLP2 GP and LP Interests will entitle the holder to monthly distributions of [0.00076]% and [0.99924]% respectively of the first \$[271]m of gross annual income of UKLP2;
 - All of the residual gross annual income of UKLP2 will be apportioned between the UKLP2 GP and LP Interests in accordance with their initial subscription amounts;
 - Expenses of UKLP2 (excluding taxation) will be apportioned among the members firstly by reference to the allocation of the residual gross annual income of UKLP2 (up to the amount of such allocations); and secondly by reference to the allocations of the first \$[271]m of gross annual income of UKLP2 (up to the amount of such allocations);

- Taxation will be apportioned among the members of UKLP2 in accordance with the actual allocations of gross partnership profits of UKLP2 as given by the above methodology.
- 2.2.8 Simultaneously, UKLP1 will enter into an agreement under which it will agree to retire from UKLP2 and permit BB&T to be admitted to UKLP2 on the same terms (the “**Retirement Agreement**”). Under the Retirement Agreement, UKLP1 will agree to retire in [3] years’ time (or earlier on (i) [1] business day’s notice by Barclays if BB&T were to become insolvent or the security interest in the Collateral (defined below) is determined to be invalidly perfected, (ii) [5] business days’ notice by Barclays (iii) or [5] – [20] business days’ notice by BB&T) for a formula price (the “**Retirement Amount**”) equal to the aggregate of:
- (i) UKLP1’s initial capital contribution to UKLP2 (i.e. \$[4,000]m);
 - (ii) interest linked to the 3-year USD swap rate (accruing on a monthly basis); and
 - (iii) any interest on any shortfall in expected distributions on the Subscriber Interest
- minus the aggregate of:
- (i) partnership distributions made in respect of the Subscriber Interest;
 - (ii) a breakage amount should the transaction be unwound by Barclays within [90] days of closing); and
 - (iii) any interest on any excess in expected distributions on the Subscriber Interest.
- 2.2.9 If Barclays retires from UKLP2 on 5 business days’ notice, then BB&T will have the option to borrow an amount equal to the Retirement Amount from UKLP1 for a term of 55 calendar days at a pre-agreed rate (the “**Retirement Loan**”). After the first 25 calendar days, the rate on the Retirement Loan will increase by a spread which will economically incentivise BB&T to redeem the Retirement Loan. UKLP1 will retain the collateral package set out in 2.2.10 during this period.
- 2.2.10 BB&T will collateralise the Retirement Agreement by pledging \$[4,000]m of collateral (the “**Collateral**”) to UKLP1 in support of its obligation to pay the Retirement Amount. The Collateral is expected to comprise of real estate and vehicle loans.
- 2.2.11 UKLP1 will pledge the Subscriber Interest in favour of BB&T in support of its delivery obligations under the Retirement Agreement.
- 2.2.12 UKLP2 will lend \$[5,318]m (the “**BB&TSub3 Loan**”) to BB&TSub3. The BB&TSub3 Loan will have a [3]-year term and will carry fixed monthly interest equal to the [3]-year USD swap rate at issue.
- 2.2.13 BB&T will enter into a 3-year par break interest rate swap with a notional of \$[4,000]m (the “**IRS**”) with Barclays under which BB&T will pay 1-month USD LIBOR and receive 3-year USD swap rate on a monthly basis.

2.3 Key Periodic Flows

- 2.3.1 UKLP2 will receive monthly payments of USD interest on the BB&TSub3 Loan net of 30% US withholding tax.
- 2.3.2 UKLP2 will pay out the majority of its income to UKLP1 as monthly partnership distributions on the Subscriber Interest. UKLP2’s remaining profits will be distributed to BB&TSub1 and BB&TSub2 as holders of the UKLP2 GP Interest and the UKLP2 LP Interest, respectively.

- 2.3.3 UKLP1 will pay out the majority of its income to Lux HoldCo as monthly partnership distributions on the UKLP1 LP Interest.
- 2.3.4 Lux HoldCo will use all cash received to subscribe for further Trust Units and the Trust will lend the money interest-free back to Lux HoldCo (the “**Trust Loans**”).
- 2.3.5 Lux HoldCo will place the cash received from the Trust Loans on deposit with external financial institutions (the “**External USD Deposits**”).
- 2.3.6 Barclays will borrow enough US dollars to satisfy its monthly obligations under the IRS (the “**Barclays External Borrowing**”) from external sources.
- 2.3.7 Barclays will receive 1-month USD LIBOR and will pay BB&T 3-year USD swap rate under the IRS.
- 2.3.8 Barclays will pay 1-month USD LIBOR on its funding.

2.4 **Hedging Arrangements**

- 2.4.1 Barclays will designate the USD Deposits (defined in Appendix 1) and Barclays External Borrowing as a functional currency hedge of the investment in the US dollar functional currency branch comprised of UK HoldCo and its subsidiaries. At the solus level, they will similarly be designated as a foreign exchange hedge of Barclays’ investment in UK HoldCo.

2.5 **Maturity/Early Termination**

- 2.5.1 On maturity (expected to be after a term of 3 years and assuming the Retirement Loan is not advanced):
 - The Retirement Agreement will complete.
 - UKLP1 will receive the Retirement Amount from BB&T.
 - UKLP1 will retire from UKLP2.
 - BB&T will be admitted to UKLP2.
 - The Collateral will be returned to BB&T.
 - The UKLP1 Portfolio will be liquidated.
 - UKLP1 will be dissolved. Lux HoldCo and UK HoldCo will retain the funds in the form of USD assets. Lux HoldCo is expected to use the funds to seek alternative investment opportunities.
 - The IRS will be terminated.

3. ECONOMICS AND ECONOMIC DRIVERS

- 3.1 Project Knight will result in an enhanced return on Lux HoldCo's indirect investment in UKLP2. This is due to the fact that the pre-tax return on the Subscriber Interest is an above-LIBOR return on the investment made.
- 3.2 Though the majority of the income earned by Lux HoldCo will have been subject to US withholding tax at a rate of 30%, it is not expected to be subject to further taxation in Luxembourg.
- 3.3 A summary of the annual economics of the transaction is given in the tables below:

Inputs	
Barclays investment in the Transaction (\$m)	4,013
Barclays USD funding cost	5.10%
Barclays investment in USD securities (\$m)	13
Barclays investment in UKLP2 (\$m)	4,000
BB&T investment in UKLP2 (\$m)	1,319
Luxembourg tax rate	29.63%
US federal tax rate	35.00%
Tax provision level	40.00%

BBPLC Consolidated Position	
Gross income	269.22
Funding costs	(204.66)
Pre-tax income	64.56
US WHT paid	(80.55)
Luxembourg income tax paid	(0.18)
UK tax	61.38
Post tax benefit	45.20
Provision (40%)	(22.56)
Post Tax benefit (post-provision)	22.64
PTE benefit (post-provision)	32.34
Benefit split (in favour of BBPLC)	80.1%

Figures in these tables are expressed in USD millions.

- 3.4 BB&T's benefit from the transaction arises from the fact that it obtains a sub-LIBOR funding on its borrowing. This equates to a benefit of 40 bps on \$[4,000]m (i.e., \$[16]m).

4. TAX ANALYSIS

4.1 Luxembourg Tax Analysis

- 4.1.1 It is intended that the Luxembourg tax treatment will be formally confirmed in rulings prior to the commencement of the transaction and this will be a condition of approval.
- 4.1.2 We have received an opinion from KPMG Luxembourg confirming the proposed analysis for the transaction which is included as Appendix 3. The key points of the analysis are as follows:

Corporate Income Tax

- 4.1.3 Any income realised by UKLP1 whether or not distributed to Lux HoldCo or UK HoldCo should be tax exempt in Luxembourg under Luxembourg domestic principles.
- 4.1.4 Lux HoldCo should be fully taxable on the interest generated from the Lux HoldCo Portfolio and any interest earned on profits placed on deposit (after deduction of management expenses).

Capital Duty

- 4.1.5 Capital Duty is currently payable on the creation of share capital at a rate of 1% of the capital created.
- 4.1.6 However, Capital Duty should be limited to relatively immaterial amounts and in particular the asset contributions made by UK HoldCo for the Lux HoldCo Prefs should not be subject to Capital Duty due to the application of a whole business contribution exemption. (See Appendix 1)

Net Wealth Tax

- 4.1.7 Net wealth tax is payable each year at a rate equal to 0.5% of net assets.
- 4.1.8 The UKLP1 LP Interest should be an exempt asset for net wealth tax purposes.
- 4.1.9 Net wealth tax on Lux HoldCo's profits placed on deposit will be mitigated by means of the structure detailed in Appendix 2.

4.2 UK Tax Analysis

Corporation Tax

- 4.2.1 The key points of the intended UK tax analysis are set out below, and a draft opinion from Slaughter & May confirming the analysis is attached at Appendix 4.
- 4.2.2 Project Knight will not require Treasury Consent or Treasury Notification.
- 4.2.3 No apportionment of the "chargeable profits" of any entity involved in the transaction should be required under UK CFC legislation.
- 4.2.4 Barclays should be able to deduct interest paid on the USD Deposits and any net payments made under the IRS for UK tax purposes.
- 4.2.5 No stamp duty should be payable in respect of the transaction.
- 4.2.6 Barclays will indemnify BB&T for any UK tax liabilities arising to it from the arrangements but no such liabilities are envisaged.

5. TAX RISKS

5.1 US Tax Risks

- 5.1.1 Project Knight does not involve Barclays undertaking any direct US tax risks. All US tax risks will be borne by the BB&T group.
- 5.1.2 Sullivan & Cromwell's US tax opinion confirming BB&TSub3's requirement to withhold US tax on the interest paid in respect of the BB&TSub3 Loan is attached as Appendix 5. Sullivan & Cromwell have also confirmed that no US withholding tax should be imposed on any amount due under the Retirement Agreement to the extent UKLP1 provides a properly completed IRS Form W-8BEN and/or W-8IMY to BB&T.

5.2 Luxembourg Tax Risks

- 5.2.1 As the transaction will be subject to rulings in Luxembourg and this will be a condition of approval, it is not considered that any material Luxembourg tax risks will exist.

5.3 UK Tax Risks

The following issues have been considered by Slaughter and May in their opinion.

CFC

- 5.3.1 No apportionment of the chargeable profits of any entity involved in the transaction should be required under UK CFC legislation.
- 5.3.2 The ECJ has confirmed in the case of *Cadbury Schweppes* that the UK's CFC rules contravene EU law by constituting a restriction on the freedom of establishment within the EU. The ECJ stated that such a restriction would be justified only to the extent that it affects "wholly artificial" arrangements. Lux HoldCo will be validly established with genuine economic presence in Luxembourg.
- 5.3.3 In addition, Lux HoldCo is not expected to be subject to a "lower level of taxation" in Luxembourg, as the local tax paid in Luxembourg will be greater than 75% of the corresponding UK tax. Therefore Lux HoldCo would not be expected to be a CFC even in the absence of the *Cadbury Schweppes* decision.
- 5.3.4 The Government has recently proposed to amend the CFC rules following the ECJ decision. However it is not considered that the proposed changes go far enough to deal with the issues raised by *Cadbury Schweppes*. We accordingly expect that there will be further changes required once the UK Courts have considered the ECJ decision which is due to take place later this year.

Repatriation of Profits

- 5.3.5 On an ultimate repatriation of the profits of Lux HoldCo to the UK, HMRC might seek to challenge the availability of a credit for any underlying US withholding tax paid by the application of s804ZA ICTA 1988. Accordingly, it is intended that Lux HoldCo will not repatriate profits to the UK in the form of dividends.

Para 13 FA 1996/ Para 23 Sch 26 FA 2002

- 5.3.6 HMRC may contend that the USD Deposits have an “unallowable purpose” and seek to deny deductions for debits arising in respect of interest paid on the USD Deposits under Para 13 Sch 9 FA 1996.
- 5.3.7 As Barclays would have accepted the USD Deposits regardless of whether or not the transaction were to be entered into, we believe that Barclays cannot be said to accept the USD Deposits with a main purpose of securing a tax advantage and that Para 13 cannot operate to deny relief in the above manner.
- 5.3.8 Similar arguments could be raised in respect of the IRS under Para 23. However, based on current interest rates there are expected to be net-taxable credits on the IRS in 2007 and we accordingly consider this risk to be very low.

6. DISCLOSURE

- 6.1 Project Knight is not disclosable in the UK.
- 6.2 Sullivan & Cromwell’s opinion confirming that the transaction is not reportable in the US is attached as Appendix 5.

7. ACCOUNTING

The accounting analysis is in the process of being agreed with Finance. An accounting opinion will be obtained from PwC before closing.

7.1 IFRS ANALYSIS

Barclays Consolidated Accounting

- 7.1.1 A full accounting analysis is given in Appendix 6. A summary of Barclays’ consolidated position is given below.
- 7.1.2 The USD Deposits and Barclays External Borrowings will be accounted for in the usual way. However, sufficient borrowings to match the investment in the capital and reserves of UK HoldCo will be designated from time to time as a fair value foreign currency hedge of the investment in UK HoldCo and its subsidiaries.
- 7.1.3 The IRS will be a derivative for IAS 39 purposes and will be carried at fair value through profit and loss.
- 7.1.4 The combination of the acquisition of the Subscriber Interest and the Retirement Agreement will be accounted for as a secured loan to BB&T on the basis that the instruments were entered into at the same time and in contemplation of each other. Barclays will recognise its share of the gross income of UKLP2 and its share of the withholding tax thereon as part of the tax charge in its consolidated profit and loss account.
- 7.1.5 The UKLP1 and Lux HoldCo Portfolios will be recognised as available for sale assets and income will be recognised using the effective interest method whilst changes in fair value will be taken through equity.

- 7.1.6 For consolidation purposes it will be necessary to retranslate the dollar profit earned by Lux HoldCo into sterling. In order to achieve this, the dollar result for each month will be converted to sterling at the month end rate. This calculation will be performed by multiplying the dollar result for the month by the USD:GBP exchange rate (i.e. as opposed to dividing by the GBP:USD exchange rate).
- 7.1.7 In accordance with IAS21.45 the foreign exchange gains and losses recognised on the UK HoldCo Prefs will not be taken to equity but will remain in profit and loss (noting that the UK HoldCo Prefs will not constitute part of the net investment in the US functional currency foreign operation because the 20 year redemption clause means that it cannot be said that “settlement is neither planned nor likely to occur in the foreseeable future”).

7.2 US GAAP

Barclays Consolidated Accounting Analysis

- 7.2.1 The Retirement Agreement will not be a derivative because it is not capable of net settlement (Para 6 SFAS 133).
- 7.2.2 The acquisition of the Subscriber Interest plus the Retirement Agreement will not be equivalent to a sale of the Subscriber Interest by the BB&T Group within the meaning of Para 6 SFAS 140. In particular UKLP1 will not be permitted to sell or pledge the Subscriber Interest without permission from BB&T and BB&T will be both entitled and required to purchase the Subscriber Interest under the terms of the Retirement Agreement. Accordingly, the transaction will be accounted for as a secured lending in the Barclays Group accounts (Para 12 SFAS 140).
- 7.2.3 Barclays will recognise the net distributions from UKLP2 as interest on this secured lending (i.e. it will not gross up for withholding tax).
- 7.2.4 The IRS will be a derivative for SFAS 133 purposes and will be carried at fair value.

BB&T Consolidated Accounting Analysis

- 7.2.5 BB&T will consolidate BB&TSub1, BB&TSub2, BB&TSub3 and UKPL2 for US GAAP purposes.
- 7.2.6 The combination of the issuance of the Subscriber Interest and the Retirement Agreement will be accounted for as a borrowing by BB&T secured by the Subscriber Interest.

8. REGULATORY CAPITAL

WEIGHTED RISK ASSETS

Consolidation

- 8.1.1 UK HoldCo, Lux HoldCo and UKLP1 will form part of Barclays’ consolidated regulatory group because Barclays will own 20% of the votes in these entities.
- 8.1.2 UKLP2 will not form part of Barclays’s consolidated regulatory group due to the transfer of risks to BB&T under the Retirement Agreement. Instead, Barclays will have an exposure to BB&T which is weighted at [20]%, giving WRAs of \$[800]m.

8.1.3 The UKLP1, Lux HoldCo and Trust Portfolios are expected to be high grade US Dollar denominated debt securities, which attract a risk weighting of [100]%. Barclays will therefore have WRAs of \$[13]m in respect of these holdings.

8.1.4 The total WRAs marked in respect of the above exposures will be \$[813]m. It is expected that this number will be reduced significantly under Basel 2 due to the Collateral.

Solus Level

8.1.5 Pursuant to the LE structure set out in Appendix 1, Barclays will have an exposure to BB&T which is weighted at [20]%, giving WRAs of \$[800]m.

8.1.6 The \$[5]m UK HoldCo Ords will be deducted from the solus capital ratio (i.e., \$5m/10% = \$50m).

8.1.7 The above treatments have been agreed with SCM Finance.

LARGE EXPOSURES

Internal

8.1.8 Absent the arrangement set out in Appendix 1, Barclays would have an internal large exposure of \$[4,008]m to UK HoldCo by virtue of the UK HoldCo Prefs. As described in Appendix 1, Barclays will mitigate \$[4,000]m of the internal large exposure in respect of the UK HoldCo Prefs by having UKLP1 in effect guarantee UK HoldCo's obligations to Barclays with regards to the UK HoldCo Prefs pursuant to CDS 1. There will be a right of set off between payments due under CDS 1 and the Call Option.

External

8.1.9 The Barclays Group will mark an exposure to the BB&T Group equal to the maximum exposure of UKLP1 to BB&T under the Retirement Agreement (i.e., \$[4,000]m).

8.1.10 Finance have confirmed that, based upon the 31 December 2006 numbers, Barclays will not need to seek approval from the FSA for an increase in the consolidated pre-notification limit against BB&T.

8.1.11 The Barclays Group will mark an exposure to the third party counterparties in respect of the Lux HoldCo, UKLP1 and Trust Portfolios equal to \$[13]m in the aggregate.

Basel II

8.1.12 On introduction of Basel II, it is understood that exposures to the UK Integrated Group will be treated as exempt.

8.1.13 As such, Barclays' exposure to the \$[4,008]m UK HoldCo Prefs will fall away being replaced by UK HoldCo's exposure to the \$[4,007]m Lux HoldCo Prefs.

8.1.14 CDS 1 will fall away.

8.1.15 UKLP1 will effectively guarantee Lux HoldCo's obligations to UK HoldCo with regards to principal amount of the Lux HoldCo Prefs by entering into a credit default swap ("**CDS 2**").

- 8.1.16 Barclays will assign the Call Option and the Charge to UK HoldCo.
- 8.1.17 UK HoldCo will be entitled to offset any amounts due by UK HoldCo under the Call Option against any amounts due to UK HoldCo under CDS 2 in respect of the Lux HoldCo Prefs.
- 8.1.18 Upon introduction of Basel II, the LE mitigation operates in the same way in that the substantive effect of the arrangements is that UK HoldCo never has an economic exposure to the performance of Lux HoldCo. This is because, in all circumstances in which an amount becomes due under CDS 2, the Call Option is accelerated and there is an offset between the amounts due to UK HoldCo under the CDS 2 and the Call Option strike price payable by UK HoldCo. Therefore, notwithstanding that UKLP1 is not considered an eligible guarantor under Basel II in respect of the unfunded credit derivative constituted by CDS 2, UK HoldCo's only exposure is to the performance of BB&T under the Retirement Agreement.

9. CREDIT & MARKET RISK

- 9.1 Credit analysis of the underlying assets and security arrangements will be conducted in the normal way and approved by GFRM prior to closing.
- 9.2 Consistent with the accounting treatment set out in Appendix 6, Barclays will treat the Subscriber Interest together with the Retirement Agreement as a secured loan to the BB&T Group. The loan will therefore give rise to a credit exposure equal to the Retirement Amount. BB&T is expected to pledge the Collateral in support of its obligations under the Retirement Agreement (i.e., satisfaction of the Retirement Amount).

10. PROVISION

- 10.1 It is proposed that a pre-tax provision of [40]% of the tax on the CFC apportionment be applied to the transaction.

11. CLIENT ENGAGEMENT

- 11.1 Morris Marley (Treasurer), Ken Daniels (Executive Vice President), Hal Johnson (Executive Vice President), Margaret Fletcher (Senior Vice President), John Foreman (Senior Vice President), Howard Hudson (Associate General Counsel), John Watson (Executive Vice President), Mark Livingston (Senior Vice President), Ken Fitchett (Senior Vice President), Kathy Coffield (Assistance Vice President), and Melodye Tomlin (Senior Vice President) of BB&T have been engaged in the origination process. In addition, the CEO, John Allison has approved in principle Project Knight.
- 11.2 The deal will be submitted for approval to the Board of Directors of BB&T and is expected to take place on 20 February 2007.
- 11.3 SCM will obtain further confirmation from appropriate senior personnel within the BB&T organisation (but outside of the deal team) that the transaction has been approved by senior management within the BB&T organisation.

12. MATERIALITY OF DEAL WITH COUNTERPARTY

- 12.1 As a result of the transaction, the BB&T group is expected to raise net funding of \$[4,000]m and receive pre-tax enhancements of approximately \$[16]m per annum.

- 12.2 Overall the BB&T group will be taxed on its economic return from the transaction and as such the tax charge in its consolidated accounts will increase. Project Knight should not however materially impact the effective federal tax rate of BB&T as BB&T will be subject to US federal income tax equal to 35% on the benefit generated from the transaction.
- 12.3 Based on the BB&T financial statements for the year ended 31 December 2005, Barclays' investment in the Subscriber Interest and Retirement Agreement will increase the gross assets of BB&T by approximately [3.66]% (i.e., \$[4,000]m/\$[109,170]m) and gross liabilities by [4.08]% (i.e., \$[4,000]m/\$[98,041]m). The pre-tax return generated from the transaction would increase the total profit before tax of BB&T by approximately [0.65]% (\$[16]m/\$[2,467]m) and increase their current federal income taxes payable by approximately [8.77]% (i.e., \$[5.6]m/\$[638]m) in a full year.
- 12.4 In 2002, Barclays entered into a STARS transaction with BB&T which is due to mature in August 2007. Pursuant to the STARS transaction, BB&T raised net funding of \$1,500m and receives a pre-tax enhancement of approximately \$53.5m per year. Based on the BB&T financial statements for the year ended 31 December 2005, the gross assets in respect of the STARS transaction represented approximately 1.37% (i.e., \$1,500m/\$109,170m) of BB&T's total gross assets and the liabilities in respect of the STARS transaction represented approximately 1.53% (i.e., \$1,500m/\$98,041m) of BB&T's total liabilities. The additional foreign taxes paid pursuant to the STARS transaction increased BB&T's foreign income taxes payable by approximately 97% (i.e., \$106m/\$109m). The ratio of federal to foreign taxes paid was 6.84:1 for the year ended 31 December 2005.

13. OTHER

- 13.1 Following the NPSO process recently undertaken for the set up of BCL it is not considered that a further NPSO is required for this transaction.
- 13.2 SCM Finance and Luxembourg Finance have agreed the respective responsibilities for reporting this transaction.
- 13.3 Based on the proposed product limit, SCM will need to agree an exception to the general tax risk framework for these transactions. This will be taken forward separately and will be a condition for approval.

APPENDICES

1. – Barclays Funding Structure
2. – Luxembourg Net Wealth Tax Mitigation
3. – Luxembourg Tax Opinion
4. – U.K. Tax Opinion
5. – U.S. Tax Opinion
6. – Accounting Analysis