

OFFERING CIRCULAR

U.S.\$396,000,000 Class A-1 First Priority Senior Secured Floating Rate Notes Due 2039
U.S.\$84,000,000 Class A-2A Second Priority Senior Secured Floating Rate Notes Due 2039
U.S.\$15,000,000 Class A-2B Second Priority Senior Secured Floating Rate Notes Due 2039
U.S.\$56,400,000 Class B Senior Secured Floating Rate Notes Due 2039
U.S.\$26,000,000 Class C Mezzanine Secured Floating Rate Notes Due 2039
19,100 Series 1 Preference Shares with an Aggregate Liquidation Preference of U.S.\$19,100,000
5,500 Series 2 Preference Shares with an Aggregate Liquidation Preference of U.S.\$5,500,000

Backed by a Portfolio of Asset-Backed Securities and related Synthetic Securities

Independence V CDO, Ltd.
Independence V CDO, Inc.

Independence V CDO, Ltd., an exempted company incorporated under the laws of the Cayman Islands (the "Issuer"), and Independence V CDO, Inc., a Delaware corporation (the "Co-Issuer" and, together with the Issuer, the "Co-Issuers"), will issue U.S.\$396,000,000 Class A-1 First Priority Senior Secured Floating Rate Notes due 2039 (the "Class A-1 Notes"); U.S.\$84,000,000 Class A-2A Second Priority Senior Secured Floating Rate Notes due 2039 (the "Class A-2A Notes"); U.S.\$15,000,000 Class A-2B Second Priority Senior Secured Floating Rate Notes due 2039 (the "Class A-2B Notes" and, together with the Class A-2A Notes, the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes"); U.S.\$56,400,000 Class B Senior Secured Floating Rate Notes due 2039 (the "Class B Notes"); and U.S.\$26,000,000 Class C Mezzanine Secured Floating Rate Notes due 2039 (the "Class C Notes"). The Class A Notes, the Class B Notes and Class C Notes are herein referred to as the "Notes". The Notes will be issued and secured pursuant to an Indenture dated as of February 25, 2004 (the "Indenture") between the Issuer, the Co-Issuer and JPMorgan Chase Bank, as trustee (the "Trustee"). Concurrently with the issuance of the Notes, the Issuer will issue 19,100 Series 1 Preference Shares (the "Series 1 Preference Shares") with an aggregate liquidation preference of U.S.\$19,100,000 and 5,500 Series 2 Preference Shares with an aggregate liquidation preference of U.S.\$5,500,000 (the "Series 2 Preference Shares" and, together with the Series 1 Preference Shares, the "Preference Shares") pursuant to the Memorandum and Articles of Association of the Issuer (the "Issuer Charter") and in accordance with a Preference Share Paying Agency Agreement dated as of February 25, 2004 (the "Preference Share Paying Agency Agreement") between the Issuer and JPMorgan Chase Bank, as preference share paying agent (in such capacity, the "Preference Share Paying Agent"). The Notes and the Preference Shares being offered hereby are referred to herein as the "Offered Securities". The Collateral (as defined herein) securing the Notes will be managed by Declaration Management & Research LLC (formerly Independence Fixed Income LLC, "Declaration" or the "Collateral Manager"). *(continued on next page)*



Declaration

It is a condition to the issuance of the Offered Securities that each of the Class A-1 Notes, Class A-2A Notes and Class A-2B Notes be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"), "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), and "AAA" by Fitch Ratings ("Fitch", and together with Moody's and Standard & Poor's, the "Rating Agencies"), that the Class B Notes be rated "Aa2" by Moody's, "AA" by Standard & Poor's and "AA" by Fitch, that the Class C Notes be rated "Baa2" by Moody's, "BBB" by Standard & Poor's, and "BBB" by Fitch, and that the Preference Shares be rated "Ba3" by Moody's, "BB-" by Standard & Poor's and "BB-" by Fitch. The ratings of the Class A Notes and the Class B Notes address the ultimate payment of principal of, and the timely payment of interest on, such Notes. The ratings of the Class C Notes address the ultimate payment of principal of and interest on the Class C Notes. The ratings of the Preference Shares address the ultimate receipt of the Preference Share Stated Balance and Preference Share Stated Coupon (as defined herein) or, in the case of the Moody's and Fitch ratings of the Series 2 Preference Shares, the receipt of an IRR of 2%. Application has been made to the Irish Stock Exchange to admit the Offered Securities (other than the Class A-2A Notes) to the Daily Official List. There can be no assurance that such admission will be granted. No application will be made to list the Offered Securities on any other stock exchange.

SEE "RISK FACTORS" IN THIS OFFERING CIRCULAR FOR A DESCRIPTION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE OFFERED SECURITIES. THE PLEDGED ASSETS OF THE ISSUER ARE THE SOLE SOURCE OF PAYMENTS ON THE OFFERED SECURITIES. THE OFFERED SECURITIES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE TRUSTEE, DECLARATION MANAGEMENT & RESEARCH LLC, MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED OR ANY OF THEIR RESPECTIVE AFFILIATES.

THE OFFERED SECURITIES BEING OFFERED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), UNDER APPLICABLE STATE SECURITIES LAWS OR UNDER THE LAWS OF ANY OTHER JURISDICTION. THE OFFERED SECURITIES ARE BEING OFFERED (A) IN THE UNITED STATES IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (i) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A) OR (ii) IN THE CASE OF THE PREFERENCE SHARES, PROVIDED BY SECTION 4(2) THEREOF TO A LIMITED NUMBER OF ACCREDITED INVESTORS WITHIN THE MEANING OF RULE 501(a) UNDER THE SECURITIES ACT AND (B) OUTSIDE THE UNITED STATES TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S) IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S ("REGULATION S") UNDER THE SECURITIES ACT AND, IN EACH CASE, IN ACCORDANCE WITH APPLICABLE LAWS. EACH ORIGINAL PURCHASER OF PREFERENCE SHARES WILL BE REQUIRED IN A SUBSCRIPTION AGREEMENT DELIVERED TO THE ISSUER (A "SUBSCRIPTION AGREEMENT") TO MAKE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS SET FORTH UNDER "TRANSFER RESTRICTIONS". A TRANSFER OF OFFERED SECURITIES (OR ANY INTEREST THEREIN) IS SUBJECT TO CERTAIN RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION. SEE "TRANSFER RESTRICTIONS".

The Offered Securities are offered by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS") and its affiliates as Initial Purchaser (the "Initial Purchaser"), subject to prior sale, when, as and if issued. The Initial Purchaser reserves the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that the Offered Securities will be delivered on or about February 25, 2004 (the "Closing Date"), in the case of the Notes and Regulation S Preference Shares, through the facilities of The Depository Trust Company ("DTC") and, in the case of Restricted Preference Shares, in the offices of MLPFS in New York, against payment therefor in immediately available funds. It is a condition to the issuance of each of the Offered Securities that all Offered Securities offered hereby be issued concurrently.

Merrill Lynch & Co.
Manager

Dated February 25, 2004

(cover continued)

Subject in each case to the Priority of Payments, (a) holders of the Class A-1 Notes will be entitled to receive interest at a floating rate per annum equal to the applicable three-month London interbank offered rate in effect from time to time plus 0.40%, (b) holders of the Class A-2A Notes will be entitled to receive interest, and certain third parties will be entitled to compensation, at a floating rate per annum in the aggregate not to exceed the applicable three-month London interbank offered rate in effect from time to time plus 1.19%, (c) holders of the Class A-2B Notes will be entitled to receive interest at a floating rate per annum equal to the applicable three-month London interbank offered rate in effect from time to time plus 0.85%, (d) holders of the Class B Notes will be entitled to receive interest at a floating rate per annum equal to the applicable three-month London interbank offered rate in effect from time to time plus 1.15% and (e) holders of the Class C Notes will be entitled to receive interest at a floating rate per annum equal to the applicable three-month London interbank offered rate in effect from time to time plus 3.10%. See "Description of the Notes—Priority of Payments".

Payments of interest on the Notes will be payable in U.S. Dollars quarterly in arrears on each March 6, June 6, September 6 and December 6, commencing June 6, 2004 (each, a "Distribution Date"), *provided* that (i) the final Distribution Date for the Notes shall be March 6, 2039 and (ii) if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day. Payments of principal of and interest on the Notes on any Distribution Date will be made if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein. See "Description of the Notes—Interest" and "Description of the Notes—Principal". The principal of each of the Class A Notes, Class B Notes and Class C Notes is payable on each Distribution Date and is required to be paid by their Stated Maturity, unless redeemed or repaid prior thereto. See "Description of the Notes—Principal". Each of the Class A-1 Notes, Class A-2A Notes, Class A-2B Notes, Class B Notes and Class C Notes is referred to herein as a "Class" of Notes. The Class A-2A Notes and the Class A-2B Notes are referred to herein as the "Class A-2 Notes".

The Issuer will enter into the Basis Swap (the "Basis Swap") described herein in order to finance the periodic payment of interest on the Class A-2A Notes on dates other than on each Distribution Date, all as described in a supplement to this Offering Circular relating to the Class A-2A Notes (the "Class A-2A Notes Supplement").

All of the Class A-1 Notes are entitled to receive payments *pari passu* among themselves, all of the Class A-2 Notes are entitled to receive payments *pari passu* among themselves, all of the Class B Notes are entitled to receive payments *pari passu* among themselves, all of the Class C Notes are entitled to receive payments *pari passu* among themselves, and all of the Preference Shares are entitled to receive payments *pari passu* among themselves. Except as otherwise described herein, the relative order of seniority of payment of each Class of Notes is as follows: *first*, Class A-1 Notes, *second*, Class A-2 Notes, *third*, Class B Notes and, *fourth*, Class C Notes, with (a) each Class of Notes (other than the Class C Notes) in such list being "Senior" to each other Class of Notes that follows such Class of Notes in such list (e.g., the Class A-1 Notes are Senior to the Class A-2A Notes, Class A-2B Notes, Class B Notes and Class C Notes) and (b) each Class of Notes (other than the Class A-1 Notes) in such list being "Subordinate" to each other Class of Notes that precedes such Class of Notes in such list (e.g., the Class C Notes are Subordinate to the Class A-1 Notes, Class A-2A Notes, Class A-2B Notes and Class B Notes). No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that are Senior to such Class and that remain outstanding has been paid in full. See "Description of the Notes—Priority of Payments". No payment of principal of any Class of Notes will be made until all principal of, and all accrued and unpaid interest on, the Notes of each Class that are Senior to such Class and that remain outstanding have been paid in full, except (i) for the payment of Class C Deferred Interest from Interest Proceeds in certain circumstances and (ii) that, after the Preference Shareholders have received on any Distribution Date a dividend on the Preference Shares resulting in a Dividend Yield equal to 15.05% as of such Distribution Date, Interest Proceeds that would otherwise be distributed to the Preference Shareholders will be applied to pay principal of any outstanding Class C Notes until the Class C Notes are paid in full. See "Description of the Notes—Priority of Payments".

The Notes are subject to optional and mandatory redemption under the circumstances described under "Description of the Notes—Auction Call Redemption", "—Optional Redemption and Tax Redemption" and "—Mandatory Redemption".

Until the Notes are paid in full, Interest Proceeds will be released from the lien of the Indenture only after the payment of interest on the Notes and certain other amounts in accordance with the Priority of Payments. Any Interest Proceeds permitted to be released from the lien of the Indenture will be distributed by the Preference Share Paying Agent to the holders of the Preference Shares (the "Preference Shareholders") on each Distribution Date. Until the Notes have been paid in full, Principal Proceeds are not permitted to be released from the lien of the Indenture and will not be available to make distributions in respect of the Preference Shares. Subject to provisions of The Companies Law (2003 Revision) of the Cayman Islands governing the declaration and payment of dividends (described herein), after the Notes have been paid in full all Interest Proceeds and Principal Proceeds remaining after all other applications under the Priority of Payments will be released from the lien of the Indenture and distributed by the Preference Share Paying Agent to the Preference Shareholders on each Distribution Date. Distributions will be made in cash (except certain liquidating distributions). The Directors of the Issuer currently intend, in the event that the Preference Shares are not redeemed at the option of a Majority-in-Interest of Preference Shareholders following the repayment in full of the Notes, to liquidate all of the Issuer's remaining investments in an orderly manner and distribute the proceeds of such liquidation to the Preference Shareholders. See "Description of the Preference Shares—Distributions".

The Notes offered by the Co-Issuers in the United States will be offered in reliance on an exemption from the registration requirements of the Securities Act and will be represented by one or more global notes ("Restricted Global Notes") in fully registered form without interest coupons deposited with the Trustee as custodian for, and registered in the name of, DTC (or its nominee). The Notes offered by the Co-Issuers and the Preference Shares offered by the Issuer outside the United States will be offered in reliance upon Regulation S under the Securities Act and will be represented by one or more global notes ("Regulation S Global Notes") or one or more global share certificates ("Regulation S Preference Shares") in fully registered form without interest coupons deposited with the Preference Share Paying Agent as custodian for, and registered in the name of, DTC (or its nominee). By acquisition of a beneficial interest in a Regulation S Global Note or Regulation S Preference Share, any purchaser thereof will be deemed to represent that (a) it is not a U.S. Person and is purchasing such beneficial interest for its own account and not for the account or benefit of a U.S. Person and (b) if in the future it decides to transfer such beneficial interest, it will transfer such interest only to a person that is not a U.S. Person in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Global Note (or a beneficial interest therein) or a Restricted Preference Share. Except in the limited circumstances described herein, certificated Notes and certificated Regulation S Preference Shares will not be issued in exchange for beneficial interests in a global note or a global share certificate. Preference Shares offered in the United States ("Restricted Preference Shares") will be issued in definitive, fully registered form without interest coupons and registered in the name of the beneficial owner thereof. See "Description of the Notes—Form, Denomination, Registration and Transfer" and "Description of the Preference Shares—Form, Registration and Transfer". Application has been made for the Offered Securities (other than the Class A-2A Notes) to be admitted to the Daily Official List of the Irish Stock Exchange. There can be no assurance that listing on the Irish Stock Exchange will be granted. No application will be made to list the Offered Securities on any other stock exchange.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE

FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NO PERSON IS AUTHORIZED IN CONNECTION WITH ANY OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED HEREIN AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE ISSUER, THE CO-ISSUER, THE COLLATERAL MANAGER OR THE INITIAL PURCHASER OR ANY OF THEIR RESPECTIVE AFFILIATES. THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, (A) ANY SECURITIES OTHER THAN THE OFFERED SECURITIES OR (B) ANY OFFERED SECURITY IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. THE DISTRIBUTION OF THIS OFFERING CIRCULAR AND THE OFFERING OF THE OFFERED SECURITIES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. PERSONS INTO WHOSE POSSESSION THIS OFFERING CIRCULAR COMES ARE REQUIRED BY THE CO-ISSUERS AND THE INITIAL PURCHASER TO INFORM THEMSELVES ABOUT, AND TO OBSERVE, ANY SUCH RESTRICTIONS. IN PARTICULAR, THERE ARE RESTRICTIONS ON THE DISTRIBUTION OF THIS OFFERING CIRCULAR, AND THE OFFER AND SALE OF OFFERED SECURITIES, IN THE UNITED STATES OF AMERICA, THE UNITED KINGDOM AND THE CAYMAN ISLANDS. SEE "PLAN OF DISTRIBUTION". NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CO-ISSUERS OR THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE AS OF WHICH SUCH INFORMATION IS GIVEN HEREIN. THE CO-ISSUERS AND THE INITIAL PURCHASER RESERVE THE RIGHT, FOR ANY REASON, TO REJECT ANY OFFER TO PURCHASE IN WHOLE OR IN PART, TO ALLOT TO ANY OFFEREE LESS THAN THE FULL AMOUNT OF OFFERED SECURITIES SOUGHT BY SUCH OFFEREE OR TO SELL LESS THAN THE AGGREGATE STATED PRINCIPAL AMOUNT OF ANY CLASS OF NOTES OR THE NUMBER OF PREFERENCE SHARES.

THE OFFERED SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. THE OFFERED SECURITIES ARE TO BE PURCHASED FOR INVESTMENT ONLY AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED BY AN INVESTOR DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY OFFERED SECURITIES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER ("RULE 144A") OR ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. FOR CERTAIN RESTRICTIONS ON RESALE, SEE "DESCRIPTION OF THE NOTES—FORM, DENOMINATION, REGISTRATION AND TRANSFER", "DESCRIPTION OF THE PREFERENCE SHARES—FORM, REGISTRATION AND TRANSFER" AND "TRANSFER RESTRICTIONS". A TRANSFER OF OFFERED SECURITIES IS SUBJECT TO THE RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE OF AN OFFERED SECURITY (1) EXCEPT AS PERMITTED UNDER (A) THE SECURITIES ACT PURSUANT

TO AN EXEMPTION FROM REGISTRATION AS DESCRIBED HEREIN, (B) APPLICABLE STATE SECURITIES LAWS AND (C) APPLICABLE SECURITIES LAWS OF ANY OTHER JURISDICTION, (2) EXCEPT IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SET FORTH IN THE INDENTURE, THE ISSUER CHARTER AND THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, RESPECTIVELY AND (3) IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION (IN THE CASE OF THE NOTES) OR A NUMBER LESS THAN THE MINIMUM REQUIRED NUMBER (IN THE CASE OF THE PREFERENCE SHARES). THE OFFERED SECURITIES ARE SUBJECT TO FURTHER RESTRICTIONS ON TRANSFER. SEE "TRANSFER RESTRICTIONS".

NEITHER THE CO-ISSUERS NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"), BY REASON OF THE EXEMPTION FROM REGISTRATION CONTAINED IN SECTION 3(c)(7) THEREOF. NO TRANSFER OF OFFERED SECURITIES WHICH WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE CO-ISSUERS OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT WILL BE PERMITTED. ANY TRANSFER OF A DEFINITIVE NOTE MAY BE EFFECTED ONLY ON THE NOTE REGISTER MAINTAINED BY THE NOTE REGISTRAR PURSUANT TO THE INDENTURE. ANY TRANSFER OF AN INTEREST IN A RESTRICTED GLOBAL NOTE, A REGULATION S GLOBAL NOTE OR A REGULATION S PREFERENCE SHARE WILL BE SHOWN ON, AND TRANSFERS THEREOF WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY DTC AND ITS DIRECT AND INDIRECT PARTICIPANTS (INCLUDING, IN THE CASE OF REGULATION S GLOBAL NOTES AND REGULATION S PREFERENCE SHARES, EUROCLEAR AND CLEARSTREAM, LUXEMBOURG). ANY TRANSFER OF RESTRICTED PREFERENCE SHARES MAY BE EFFECTED ONLY ON THE PREFERENCE SHARE REGISTER MAINTAINED BY THE PREFERENCE SHARE REGISTRAR PURSUANT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT.

EACH ORIGINAL PURCHASER AND EACH SUBSEQUENT TRANSFEREE OF A NOTE OR A PREFERENCE SHARE WILL BE REQUIRED TO CERTIFY (OR IN CERTAIN CIRCUMSTANCES BE DEEMED TO REPRESENT AND WARRANT) EITHER THAT (A) IT IS NOT (AND FOR SO LONG AS IT HOLDS ANY NOTE OR INTEREST THEREIN WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS SUCH NOTE WILL NOT BE ACTING ON BEHALF OF) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), A "PLAN" AS DEFINED IN SECTION 4975(e)(1) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") (EACH SUCH ENTITY, A "PLAN"), AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO THE PLAN ASSET REGULATION OF THE UNITED STATES DEPARTMENT OF LABOR, 29 C.F.R. SECTION 2510.3-101 (THE "PLAN ASSET REGULATION"), WHICH PLAN OR ENTITY IS SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS MATERIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE OR PREFERENCE SHARE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR ANY SUCH SIMILAR LAW.

EACH ORIGINAL PURCHASER AND EACH SUBSEQUENT TRANSFEREE OF A REGULATION S PREFERENCE SHARE WILL BE DEEMED TO REPRESENT AND WARRANT THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS SUCH REGULATION S PREFERENCE SHARE WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS SUCH REGULATION S PREFERENCE SHARE WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR (AS DEFINED IN THE PLAN ASSET REGULATION, 29 C.F.R. SECTION 2510.3-101(f) (ANY SUCH PERSON, A "BENEFIT PLAN INVESTOR") OR A PERSON, OTHER THAN, IN THE CASE OF AN ORIGINAL PURCHASER, A BENEFIT PLAN INVESTOR, WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE CO-ISSUERS, OR WHO PROVIDE

INVESTMENT ADVICE FOR A FEE, DIRECT OR INDIRECT, WITH RESPECT TO SUCH ASSETS OR AN AFFILIATE OF SUCH A PERSON (ANY SUCH PERSON, A "CONTROLLING PERSON").

EACH ORIGINAL PURCHASER OF A RESTRICTED PREFERENCE SHARE WILL BE REQUIRED TO CERTIFY WHETHER OR NOT IT IS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON. NO TRANSFER OF PREFERENCE SHARES (OTHER THAN FROM THE INITIAL PURCHASER TO AN ORIGINAL PURCHASER ON THE CLOSING DATE) WILL BE EFFECTIVE, AND THE ISSUER, THE PREFERENCE SHARE REGISTRAR AND THE PREFERENCE SHARE PAYING AGENT WILL NOT RECOGNIZE ANY SUCH TRANSFER IF THE TRANSFEREE IS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON.

THE OFFERED SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION, AND NONE OF THE FOREGOING AUTHORITIES HAS CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This offering circular (the "Offering Circular") has been prepared by the Co-Issuers solely for use in connection with the offering of the Offered Securities described herein (the "Offering") and for listing purposes. The Co-Issuers have taken all reasonable care to confirm that the information contained in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect and that there are no other facts relating to the Co-Issuers or the Offered Securities, the omission of which makes this Offering Circular as a whole or any such information contained herein, in light of the circumstances under which it was made, misleading in any material respect. The Co-Issuers accept responsibility accordingly. The Co-Issuers disclaim any obligation to update such information and do not intend to do so. Neither the Initial Purchaser nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein. Neither the Collateral Manager nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy and completeness of the information contained herein other than the information appearing in the section "The Collateral Manager". Neither the Hedge Counterparty nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein. Nothing contained in this Offering Circular is or should be relied upon as a promise or representation as to future results or events. The Trustee has not participated in the preparation of this Offering Circular and assumes no responsibility for its contents.

Notwithstanding anything to the contrary herein, all persons may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described herein and all materials of any kind (including opinions or other tax analyses) that are provided to such person relating to such tax treatment and tax structure.

All of the statements in this Offering Circular with respect to the business of the Co-Issuers, and any financial projections or other forecasts, are based on information furnished by the Co-Issuers. See "Forward Looking Statements". None of the Initial Purchaser, the Collateral Manager and their respective affiliates assumes any responsibility for the performance of any obligations of either of the Co-Issuers or any other person described in this Offering Circular (except that the Collateral Manager is responsible for the performance of its obligations under the Collateral Management Agreement) or for the due execution, validity or enforceability of the Offered Securities, instruments or documents delivered in connection with

the Offered Securities or for the value or validity of any collateral or security interests pledged in connection therewith.

This Offering Circular contains summaries of certain documents. The summaries do not purport to be complete and are qualified in their entirety by reference to such documents, copies of which will be made available to offerees upon request. Requests and inquiries regarding this Offering Circular or such documents should be directed to Merrill Lynch, Pierce, Fenner & Smith Incorporated at 4 World Financial Center, New York, New York 10080 Attention: Global Structured Credit Products. Copies of such documents may also be obtained free of charge from NCB Stockbrokers Limited in its capacity as paying agent located in Dublin, Ireland (in such capacity, the "Irish Paying Agent") if and for so long as any Offered Securities (other than the Class A-2A Notes) are listed on the Irish Stock Exchange.

The Co-Issuers will make available to any offeree of the Offered Securities, prior to the issuance thereof, the opportunity to ask questions of and to receive answers from the Co-Issuers or a person acting on their behalf concerning the terms and conditions of the Offering, the Co-Issuers or any other relevant matters and to obtain any additional information to the extent the Co-Issuers possess such information or can obtain it without unreasonable expense. The information referred to in this paragraph will also be obtainable at the office of the Irish Paying Agent if and for so long as any Offered Securities (other than the Class A-2A Notes) are listed on the Irish Stock Exchange.

Each Original Purchaser of an Offered Security offered and sold in the United States will be required (or in certain circumstances deemed) to represent to the Initial Purchaser offering any Offered Security to it that it is (a)(i) a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) (a "Qualified Institutional Buyer") or (ii) in the case of the Preference Shares, an "Accredited Investor" within the meaning of Rule 501(a) under the Securities Act (an "Accredited Investor") and (b) a Qualified Purchaser (as defined herein) acquiring the Offered Security for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A). A "Qualified Purchaser" is (i) a "qualified purchaser" as defined in the Investment Company Act, (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 under the Investment Company Act or (iii) a company beneficially owned exclusively by one or more "qualified purchasers" and/or "knowledgeable employees" with respect to the Issuer. Each Original Purchaser of an Offered Security offered and sold in reliance on Regulation S will be required (or in certain circumstances deemed) to represent that it is not a U.S. Person (as defined in Regulation S, a "U.S. Person") and is acquiring the Offered Security in an offshore transaction in accordance with Regulation S for its own account and not for the account or benefit of a U.S. Person. Each Original Purchaser of the Offered Securities will also be required (or in certain circumstances be deemed) to acknowledge that the Offered Securities have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (a)(i) to a person (A) whom the seller reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from Securities Act registration provided by Rule 144A, and (B) that is a Qualified Purchaser, (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (iii) in the case of a Restricted Preference Share, to both a Qualified Purchaser and an institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of the Securities Act (an "Institutional Accredited Investor") (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (b) in compliance with the certification and other requirements set forth in the Indenture or the Preference Share Paying Agency Agreement and (c) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. Notwithstanding the foregoing, each Original Purchaser of Class A-2A Notes will be deemed to have (a) made the representations set forth in the form of the purchaser letter attached as an exhibit to a supplement to this Offering Circular with respect to the Class A-2A Notes (the "Class A-2A Notes Supplement") and (b) acknowledged that the Class A-2A Notes may not be reoffered, resold, pledged or otherwise transferred except as described in the Class A-2A Notes Supplement. The Class A-2A Notes Supplement will be delivered to each Original Purchaser of Class A-2A Notes. For a description of these

and certain other restrictions on offers and sales of the Offered Securities and distribution of this Offering Circular, see "Transfer Restrictions".

Although the Initial Purchaser may from time to time make a market in any Class of Notes or the Preference Shares, the Initial Purchaser is under no obligation to do so. In the event that the Initial Purchaser commences any market-making, the Initial Purchaser may discontinue the same at any time. There can be no assurance that a secondary market for any Class of the Notes or the Preference Shares will develop, or if a secondary market does develop, that it will provide the holders of such Class of Notes or Preference Shares with liquidity of investment or that it will continue for the life of such Class of Notes or Preference Shares.

THIS OFFERING CIRCULAR IS FOR INFORMATION PURPOSES ONLY AND IS NOT INTENDED TO BE RELIED UPON ALONE AS THE BASIS FOR AN INVESTMENT DECISION. IN MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CO-ISSUERS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED AND MUST NOT RELY UPON INFORMATION PROVIDED BY OR STATEMENTS MADE BY THE INITIAL PURCHASER, THE COLLATERAL MANAGER OR ANY OF THEIR AFFILIATES. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THE OFFERED SECURITIES FOR AN INDEFINITE PERIOD OF TIME.

NONE OF THE CO-ISSUERS, THE COLLATERAL MANAGER, THE INITIAL PURCHASER AND THEIR RESPECTIVE AFFILIATES MAKES ANY REPRESENTATION TO ANY OFFEREE OR PURCHASER OF OFFERED SECURITIES REGARDING THE LEGALITY OF INVESTMENT THEREIN BY SUCH OFFEREE OR PURCHASER UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS OR THE PROPER CLASSIFICATION OF SUCH AN INVESTMENT THEREUNDER.

THE CONTENTS OF THIS OFFERING CIRCULAR ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO LEGAL, BUSINESS AND TAX ADVICE.

In this Offering Circular, references to "U.S. Dollars", "Dollars" and "U.S.\$" are to United States dollars.

Offers, sales and deliveries of Offered Securities are subject to certain restrictions in the United States, the United Kingdom, the Cayman Islands and other jurisdictions. See "Plan of Distribution" and "Transfer Restrictions".

No invitation may be made to the public in the Cayman Islands to subscribe for the Offered Securities.

NOTICE TO FLORIDA RESIDENTS

THE OFFERED SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER SECTION 517.061 OF THE FLORIDA SECURITIES ACT (THE "FLORIDA ACT") AND HAVE NOT BEEN REGISTERED UNDER THE FLORIDA ACT IN THE STATE OF FLORIDA. FLORIDA RESIDENTS WHO ARE NOT INSTITUTIONAL INVESTORS DESCRIBED IN SECTION 517.061(7) OF THE FLORIDA ACT HAVE THE RIGHT TO VOID THEIR PURCHASES OF THE OFFERED SECURITIES WITHOUT PENALTY WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION.

NOTICE TO CONNECTICUT RESIDENTS

THE OFFERED SECURITIES HAVE NOT BEEN REGISTERED UNDER THE CONNECTICUT SECURITIES LAW. THE OFFERED SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND SALE.

NOTICE TO GEORGIA RESIDENTS

THE OFFERED SECURITIES HAVE BEEN ISSUED OR SOLD IN RELIANCE ON PARAGRAPH (13) OF CODE SECTION 10-5-9 OF THE GEORGIA SECURITIES ACT OF 1973, AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER SUCH ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER SUCH ACT.

NOTICE TO RESIDENTS OF AUSTRIA

THIS OFFERING CIRCULAR IS NOT A PROSPECTUS UNDER THE AUSTRIAN CAPITAL MARKETS ACT OR THE AUSTRIAN INVESTMENT FUNDS ACT. THIS OFFERING CIRCULAR HAS NOT BEEN EXAMINED BY A PROSPECTUS AUDITOR AND NO PROSPECTUS ON THE PRIVATE PLACEMENT OF THE OFFERED SECURITIES HAS BEEN PUBLISHED OR WILL BE PUBLISHED IN AUSTRIA. THE OFFERED SECURITIES ARE OFFERED IN AUSTRIA ONLY TO A RESTRICTED AND SELECTED NUMBER OF PROFESSIONAL AND SOPHISTICATED INDIVIDUAL INVESTORS, AND NO PUBLIC OFFERING OF THE OFFERED SECURITIES IN AUSTRIA IS BEING MADE OR IS INTENDED TO BE MADE. THE OFFERED SECURITIES CAN ONLY BE ACQUIRED FOR A COMMITMENT EXCEEDING ATS600,000 OR ITS EQUIVALENT VALUE IN ANY FOREIGN CURRENCY. THE INTERESTS ISSUED BY THE CO-ISSUERS ARE NOT OFFERED IN AUSTRIA, AND THE CO-ISSUERS ARE NOT AND WILL NOT BE REGISTERED AS A FOREIGN INVESTMENT FUND IN AUSTRIA.

NOTICE TO RESIDENTS OF BELGIUM

THE OFFERED SECURITIES MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED IN OR FROM BELGIUM AS PART OF THEIR INITIAL DISTRIBUTION OR AT ANY TIME THEREAFTER, DIRECTLY OR INDIRECTLY, OTHER THAN TO PERSONS OR ENTITIES MENTIONED IN ARTICLE 3 OF THE ROYAL DECREE OF JANUARY 9, 1991 RELATING TO THE PUBLIC CHARACTERISTIC OF OPERATIONS CALLING FOR SAVINGS AND ON THE ASSIMILATION OF CERTAIN OPERATIONS TO A PUBLIC OFFER (BELGIAN OFFICIAL JOURNAL OF JANUARY 12, 1991). THEREFORE, THE OFFERED SECURITIES ARE EXCLUSIVELY DESIGNED FOR CREDIT INSTITUTIONS, STOCK EXCHANGE COMPANIES, COLLECTIVE INVESTMENT FUNDS, COMPANIES OR INSTITUTIONS, INSURANCE COMPANIES AND/OR PENSION FUNDS ACTING FOR THEIR OWN ACCOUNT ONLY.

NOTICE TO MEMBERS OF THE PUBLIC IN THE CAYMAN ISLANDS

THE OFFERED SECURITIES MAY NOT BE OFFERED TO MEMBERS OF THE PUBLIC IN THE CAYMAN ISLANDS PURSUANT TO S. 195 OF THE COMPANIES LAW (2003 REVISION) OF THE CAYMAN ISLANDS.

NOTICE TO RESIDENTS OF DENMARK

EACH OF THE CO-ISSUERS AND THE INITIAL PURCHASER HAS AGREED THAT IT HAS NOT OFFERED OR SOLD AND WILL NOT OFFER, SELL OR DELIVER ANY OFFERED SECURITIES IN THE KINGDOM OF DENMARK, DIRECTLY OR INDIRECTLY, BY WAY OF PUBLIC OFFER, UNLESS SUCH OFFER, SALE OR DELIVERY IS, OR WAS, IN COMPLIANCE WITH THE DANISH ACT NO. 1072 OF DECEMBER 20, 1995 ON SECURITIES TRADING, CHAPTER 12 ON PROSPECTUSES ON FIRST PUBLIC OFFER OF CERTAIN EXECUTIVE SECURITIES AND ANY EXECUTIVE ORDERS ISSUED IN PURSUANT THEREOF.

NOTICE TO RESIDENTS OF FINLAND

THIS OFFERING CIRCULAR HAS BEEN PREPARED FOR PRIVATE INFORMATION PURPOSES OF INTERESTED INVESTORS ONLY. IT MAY NOT BE USED FOR AND SHALL NOT BE DEEMED A PUBLIC OFFERING OF THE OFFERED SECURITIES. THE RAHOITUSTARKASTUS HAS NOT AUTHORIZED ANY OFFERING OF THE SUBSCRIPTION OF THE OFFERED SECURITIES; ACCORDINGLY, THE OFFERED SECURITIES MAY NOT BE OFFERED OR SOLD IN FINLAND OR TO RESIDENTS THEREOF EXCEPT AS PERMITTED BY FINNISH LAW. THIS OFFERING CIRCULAR IS STRICTLY FOR PRIVATE USE BY ITS HOLDER AND MAY NOT BE PASSED ON TO THIRD PARTIES.

NOTICE TO RESIDENTS OF FRANCE

THE OFFERED SECURITIES ARE *ORGANISMES DE PLACEMENTS COLLECTIFS EN VALEURS MOBILIÈRES* ISSUED BY A RESIDENT OF A NON-EC STATE. ACCORDINGLY, PURSUANT TO THE PROVISIONS OF DECREE NO. 89-624 OF 6 SEPTEMBER 1989, THE OFFERED SECURITIES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN FRANCE WITHOUT THE PRIOR APPROVAL OF THE FRENCH MINISTRY OF FINANCE.

EACH OF THE CO-ISSUERS AND THE INITIAL PURCHASER REPRESENTS AND AGREES THAT IT HAS NOT OFFERED OR SOLD AND WILL NOT OFFER OR SELL, DIRECTLY OR INDIRECTLY, ANY OF THE OFFERED SECURITIES BY WAY OF A PUBLIC OFFERING IN FRANCE (AN *APPEL PUBLIC À L'ÉPARGNE*, AS DEFINED IN ARTICLE 61 OF *ORDONNANCE* NO. 67-883 OF 28 SEPTEMBER 1967, AS AMENDED BY LAW NO. 98 - 546 OF 2 JULY 1998).

NOTICE TO RESIDENTS OF GERMANY

THE DISTRIBUTION OF THE OFFERED SECURITIES IN GERMANY IS SUBJECT TO THE RESTRICTIONS CONTAINED IN THE GERMAN FOREIGN INVESTMENT ACT (*AUSLANDSINVESTMENTGESETZ*); IN PARTICULAR, THEY MAY NOT BE PUBLICLY DISTRIBUTED.

NOTICE TO RESIDENTS OF HONG KONG

THIS OFFERING CIRCULAR HAS NOT BEEN DELIVERED FOR REGISTRATION TO THE REGISTRAR OF COMPANIES IN HONG KONG, NOR HAVE THE CO-ISSUERS BEEN AUTHORIZED BY THE SECURITIES AND FUTURES COMMISSION AND, ACCORDINGLY, THIS DOCUMENT MUST NOT BE ISSUED, CIRCULATED OR DISTRIBUTED IN HONG KONG OTHER THAN (1) IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE AN OFFER OR SALE OF THE OFFERED SECURITIES TO THE PUBLIC IN HONG KONG, OR (2) TO PERSONS WHOSE ORDINARY BUSINESS IS TO BUY OR SELL DEBENTURES OR SHARES WHETHER AS PRINCIPAL OR AS AGENT FOR THE PURPOSES OF THE COMPANIES ORDINANCE OF HONG KONG. UNLESS PERMITTED BY THE SECURITIES LAWS OF HONG KONG, NO PERSON MAY ISSUE IN HONG KONG, OR HAVE IN ITS POSSESSION FOR ISSUE IN HONG KONG, THIS OFFERING CIRCULAR

OR ANY OTHER ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE OFFERED SECURITIES OTHER THAN TO A PROFESSIONAL INVESTOR AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE (CAP. 571) AND THE SECURITIES AND FUTURES (PROFESSIONAL INVESTOR) RULES (L.N. 188 OF 2002).

NOTICE TO RESIDENTS OF JAPAN

THE OFFERED SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF JAPAN. NEITHER THE OFFERED SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO OR FOR THE ACCOUNT OF ANY RESIDENT OF JAPAN (WHICH TERM AS USED HEREIN MEANS ANY PERSON RESIDENT IN JAPAN, INCLUDING ANY CORPORATION OR OTHER ENTITY ORGANIZED UNDER THE LAWS OF JAPAN), OR TO OTHERS FOR RE-OFFERING OR SALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO A RESIDENT OF JAPAN EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE SECURITIES AND EXCHANGE LAW AND ANY OTHER APPLICABLE LAW, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

NOTICE TO RESIDENTS OF THE NETHERLANDS

THE OFFERED SECURITIES MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED, WHETHER DIRECTLY OR INDIRECTLY, TO ANY INDIVIDUAL OR LEGAL ENTITY IN THE NETHERLANDS OTHER THAN TO INDIVIDUALS WHO, OR LEGAL ENTITIES WHICH, IN THE COURSE OF THEIR OCCUPATION OR BUSINESS, DEAL OR INVEST IN SECURITIES (AS SET OUT IN SECTION 1 OF THE REGULATION OF 9 OCTOBER 1990 IN IMPLEMENTATION OF SECTION 14 OF THE ACT ON THE SUPERVISION OF INVESTMENT INSTITUTIONS).

NOTICE TO RESIDENTS OF NORWAY

EACH OF THE CO-ISSUERS AND THE INITIAL PURCHASER REPRESENTS AND AGREES THAT IT WILL COMPLY WITH CHAPTER 5 OF THE NORWEGIAN ACT NO. 79 OF JUNE 19, 1997 ON SECURITIES TRADING (SECURITIES TRADING ACT) AND EACH OF THE CO-ISSUERS AND THE INITIAL PURCHASER ADDITIONALLY REPRESENTS AND AGREES THAT IT HAS NOT, DIRECTLY OR INDIRECTLY, OFFERED OR SOLD AND WILL NOT, DIRECTLY OR INDIRECTLY, OFFER OR SELL IN THE KINGDOM OF NORWAY OR TO INVESTORS IN THE NORWEGIAN SECURITIES MARKET ANY OFFERED SECURITIES OTHER THAN TO PERSONS WHO ARE REGISTERED WITH THE OSLO STOCK EXCHANGE AS PROFESSIONAL INVESTORS.

NOTICE TO RESIDENTS OF SINGAPORE

THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE. ACCORDINGLY, THIS OFFERING CIRCULAR OR ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH ANY OFFER OF NOTES OR PREFERENCE SHARES MAY NOT BE ISSUED, CIRCULATED OR DISTRIBUTED IN SINGAPORE. THE OFFER OF NOTES OR PREFERENCE SHARES OR ANY INVITATION TO SUBSCRIBE FOR OR PURCHASE ANY NOTES OR PREFERENCE SHARES (OR ANY ONE OF THEM) MAY NOT BE MADE, DIRECTLY OR INDIRECTLY, IN SINGAPORE, OTHER THAN UNDER CIRCUMSTANCES IN WHICH SUCH OFFER OR SALE DOES NOT CONSTITUTE AN OFFER OR SALE OF THE NOTES OR PREFERENCE SHARES TO THE PUBLIC IN SINGAPORE, OR IN WHICH SUCH OFFER OR SALE IS MADE PURSUANT TO SUITABLE EXEMPTIONS APPLICABLE THERETO (SUCH AS BUT NOT LIMITED TO SECTION 274 OR SECTION 275 OF THE SECURITIES AND FUTURES ACT 2001 (CHAPTER 289 OF SINGAPORE LAW). NO PERSON WHO RECEIVES A COPY OF THIS OFFERING

CIRCULAR UNDER SUCH CIRCUMSTANCES MAY ISSUE, CIRCULATE OR DISTRIBUTE THIS OFFERING CIRCULAR IN SINGAPORE OR MAKE, OR GIVE TO ANY OTHER PERSON, A COPY OF THIS OFFERING CIRCULAR.

NOTICE TO RESIDENTS OF SWITZERLAND

THE CO-ISSUERS HAVE NOT BEEN AUTHORIZED BY THE SWISS FEDERAL BANKING COMMISSION AS A FOREIGN INVESTMENT FUND UNDER ARTICLE 45 OF THE SWISS FEDERAL LAW ON INVESTMENT FUNDS OF 18 MARCH 1994. ACCORDINGLY, THE OFFERED SECURITIES MAY NOT BE OFFERED OR DISTRIBUTED ON A PROFESSIONAL BASIS IN OR FROM SWITZERLAND, AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THE OFFERED SECURITIES MAY BE DISTRIBUTED IN CONNECTION WITH ANY SUCH OFFERING OR DISTRIBUTION. THE OFFERED SECURITIES MAY, HOWEVER, BE OFFERED AND THIS OFFERING CIRCULAR MAY BE DISTRIBUTED IN SWITZERLAND ON A PROFESSIONAL BASIS TO A LIMITED NUMBER OF PROFESSIONAL INVESTORS IN CIRCUMSTANCES SUCH THAT THERE IS NO PUBLIC OFFER.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

THE OFFERED SECURITIES MAY NOT BE OFFERED OR SOLD AND, PRIOR TO THE EXPIRY OF THE PERIOD OF SIX MONTHS FROM THE CLOSING DATE, WILL NOT BE OFFERED OR SOLD TO PERSONS IN THE UNITED KINGDOM EXCEPT TO PERSONS WHOSE ORDINARY ACTIVITIES INVOLVE THEM IN ACQUIRING, HOLDING, MANAGING OR DISPOSING OF INVESTMENTS (AS PRINCIPAL OR AGENT) FOR THE PURPOSE OF THEIR BUSINESS OR OTHERWISE IN CIRCUMSTANCES THAT HAVE NOT RESULTED AND WILL NOT RESULT IN AN OFFER TO THE PUBLIC IN THE UNITED KINGDOM WITHIN THE MEANING OF THE PUBLIC OFFERS OF SECURITIES REGULATIONS 1995. THIS OFFERING CIRCULAR AND ANY OTHER DOCUMENT IN CONNECTION WITH THE OFFERING AND ISSUANCE OF THE OFFERED SECURITIES MAY ONLY BE ISSUED OR PASSED ON TO A PERSON OF A KIND DESCRIBED IN ARTICLE 49(2) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2001 OR IS A PERSON TO WHOM THIS OFFERING CIRCULAR OR ANY OTHER SUCH DOCUMENT MAY OTHERWISE LAWFULLY BE ISSUED OR PASSED ON (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS").

ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS DOCUMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with the sale of the Offered Securities, each of the Co-Issuers (or the Issuer, in the case of the Preference Shares) will be required to furnish, upon request of a holder of a Note or a Preference Share, to such holder and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request such Co-Issuer is not a reporting company under Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or is not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. Such information may be obtained from the Trustee or Listing Agent located in Ireland. It is not contemplated that either of the Co-Issuers will be such a reporting company or so exempt.

FORWARD LOOKING STATEMENTS

Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Collateral Manager considers reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, differences in the actual allocation of the Collateral Debt Securities among asset categories from those assumed, the timing of acquisitions of the Collateral Debt Securities, the timing and frequency of defaults on the Collateral Debt Securities, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Collateral Debt Securities (particularly on or prior to the last day of the Substitution Period) and the effectiveness of the Hedge Agreement, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchaser or any of their respective affiliates or any other person or entity of the results that will actually be achieved by the Issuer.

None of the Issuer, the Co-Issuer, the Collateral Manager, the Initial Purchaser or their respective affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

TABLE OF CONTENTS

SUMMARY OF TERMS	1
RISK FACTORS	19
DESCRIPTION OF THE NOTES	42
Status and Security	42
Interest	42
Principal	46
Substitution Period	47
Mandatory Redemption	47
Auction Call Redemption	48
Optional Redemption and Tax Redemption	50
Sale of Collateral	51
Redemption Procedures	52
Redemption Price	53
Cancellation	53
Payments	53
Certain Definitions	60
The Coverage Tests	65
Form, Denomination, Registration and Transfer	67
No Gross-Up	73
The Indenture	73
DESCRIPTION OF THE PREFERENCE SHARES	81
Status	81
Distributions	81
Optional Redemption	82
The Issuer Charter	83
Petitions for Bankruptcy	85
Governing Law	85
Certain Definitions	86
Form, Registration and Transfer	86
No Gross-Up	93
USE OF PROCEEDS	94
RATING OF THE OFFERED SECURITIES	94
MATURITY, PREPAYMENT AND YIELD CONSIDERATIONS	96
THE CO-ISSUERS	98
General	98
Capitalization and Indebtedness of the Issuer and the Co-Issuer	99
Business	99
SECURITY FOR THE NOTES	101
General	101
Collateral Debt Securities	101

Asset-Backed Securities	103
Synthetic Securities	118
The Collateral Quality Tests	118
Dispositions of Collateral Debt Securities	134
Reinvestment Criteria	139
The Hedge Agreement	147
The Accounts	151
THE COLLATERAL MANAGER	156
General	156
Declaration Management & Research LLC	157
Investment Strategy	158
Biographies	159
THE COLLATERAL MANAGEMENT AGREEMENT	163
INCOME TAX CONSIDERATIONS	168
Taxation of the Issuer	168
Taxation of the Holders	169
ERISA CONSIDERATIONS	174
PLAN OF DISTRIBUTION	179
United States	179
United Kingdom	180
Cayman Islands	181
Hong Kong	181
General	181
TRANSFER RESTRICTIONS	182
LISTING AND GENERAL INFORMATION	198
LEGAL MATTERS	200
SCHEDULE A	201
SCHEDULE B	206
SCHEDULE C	207
SCHEDULE D	208
SCHEDULE E	209
SCHEDULE F	210
INDEX OF DEFINED TERMS	212

SUMMARY OF TERMS

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Circular. An index of defined terms appears at the back of this Offering Circular.

Securities Offered:

U.S.\$396,000,000 aggregate principal amount Class A-1 First Priority Senior Secured Floating Rate Notes due 2039 (the "Class A-1 Notes").

U.S.\$84,000,000 aggregate principal amount Class A-2A Second Priority Senior Secured Floating Rate Notes due 2039 (the "Class A-2A Notes").

U.S.\$15,000,000 aggregate principal amount Class A-2B Second Priority Senior Secured Floating Rate Notes due 2039 (the "Class A-2B Notes", and together with the Class A-2A Notes, the "Class A-2 Notes") The Class A-1 Notes and Class A-2 Notes are referred to herein as "Class A Notes".

U.S.\$56,400,000 aggregate principal amount Class B Senior Secured Floating Rate Notes due 2039 (the "Class B Notes").

U.S.\$26,000,000 aggregate principal amount Class C Mezzanine Secured Floating Rate Notes due 2039 (the "Class C Notes"; the Class A Notes, Class B Notes and Class C Notes are herein referred to as the "Notes"). Each of the Class A-1 Notes, Class A-2A Notes, Class A-2B Notes, Class B Notes and Class C Notes are herein referred to as a "Class" of Notes.

19,100 Series 1 Preference Shares, par value U.S.\$0.01 per share, having a liquidation preference equal to U.S.\$1,000 per share (the "Series 1 Preference Shares").

5,500 Series 2 Preference Shares, par value U.S.\$0.01 per share, having a liquidation preference equal to U.S.\$1,000 per share (the "Series 2 Preference Shares", together with the Series 1 Preference Shares, the "Preference Shares", and together with the Notes, the "Offered Securities"). All of the Offered Securities will be issued on the Closing Date.

The Notes will be issued and secured pursuant to an Indenture dated as of February 25, 2004 (the "Indenture"), between the Issuer, the Co-Issuer and JPMorgan Chase Bank, as trustee (in such capacity, together with its successors in such capacity, the "Trustee"). The Hedge Counterparty will be an express third-party beneficiary of the Indenture. See "Description of the Notes—Status and Security" and "—The Indenture". The Notes will be limited-recourse debt obligations

of the Co-Issuers secured solely by a pledge of the Collateral by the Issuer to the Trustee pursuant to the Indenture for the benefit of the holders from time to time of the Notes, the Collateral Manager and the Hedge Counterparty (collectively, the "Secured Parties"). See "Description of the Notes—Status and Security".

The terms of the Preference Shares will be set out in the Issuer's Memorandum and Articles of Association (the "Issuer Charter") and will be issued in accordance with a Preference Share Paying Agency Agreement dated as of February 25, 2004 (the "Preference Share Paying Agency Agreement") between the Issuer and JPMorgan Chase Bank, as preference share paying agent (in such capacity, the "Preference Share Paying Agent").

All of the Class A-1 Notes are entitled to receive payments *pari passu* among themselves, all of the Class A-2 Notes are entitled to receive payments *pari passu* among themselves, all of the Class B Notes are entitled to receive payments *pari passu* among themselves, all of the Class C Notes are entitled to receive payments *pari passu* among themselves, and all of the Preference Shares are entitled to receive payments *pari passu* among themselves. Except as otherwise described herein, the relative order of seniority of payment of each Class of Notes is as follows: *first*, Class A-1 Notes, *second*, Class A-2 Notes, *third*, Class B Notes and *fourth*, Class C Notes, with (a) each Class of Notes (other than the Class C Notes) in such list being "Senior" to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes (other than the Class A-1 Notes) in such list being "Subordinate" to each other Class of Notes that precedes such Class of Notes in such list.

No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that are Senior to such Class and that remain outstanding has been paid in full. See "Description of the Notes—Priority of Payments". No payment of principal of any Class of Notes will be made until all principal of, and all accrued and unpaid interest on, the Notes of each Class that are Senior to such Class and that remain outstanding have been paid in full, except (i) for the payment of Class C Deferred Interest from Interest Proceeds in certain circumstances and (ii) that, after the Preference Shareholders have received on any Distribution Date a dividend on the Preference Shares resulting in a Dividend Yield equal to 15.05% as of such Distribution Date, Interest Proceeds that would otherwise be distributed to the Preference Shareholders will be applied to pay principal of any outstanding Class C

Notes until the Class C Notes are paid in full. See "Description of the Notes—Priority of Payments".

The Co-Issuers:

Independence V CDO, Ltd. (the "Issuer") is an exempted company incorporated under The Companies Law (2003 Revision) of the Cayman Islands pursuant to the Issuer Charter and is in good standing under the laws of the Cayman Islands. The Indenture and the Issuer Charter will provide that the activities of the Issuer are limited to (1) acquiring and disposing of, and investing and reinvesting in, Collateral Debt Securities, Equity Securities, U.S. Agency Securities and Eligible Investments, (2) entering into and performing its obligations under the Indenture, the Hedge Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Securities Purchase Agreement, the Class A-2A Agency and Amending Agreement and the Preference Share Paying Agency Agreement, (3) issuing and selling the Offered Securities, (4) pledging the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties, (5) owning and managing the Co-Issuer and (6) other incidental activities.

Independence V CDO, Inc., a Delaware corporation (the "Co-Issuer" and, together with the Issuer, the "Co-Issuers"), was incorporated for the sole purpose of co-issuing the Notes. The entire authorized share capital of the Co-Issuer is owned by the Issuer.

The Issuer will not have any material assets other than the Collateral (as defined herein) and its equity interest in the Co-Issuer.

The Co-Issuer will not have any assets (other than the proceeds of its shares, being U.S.\$1,000) and will not pledge any assets to secure the Notes. The Co-Issuer will not have any interest in the Collateral Debt Securities held by the Issuer.

Collateral Manager:

Declaration Management & Research LLC (formerly named "Independence Fixed Income LLC"), a Delaware limited liability company ("Declaration" or the "Collateral Manager") based in McLean, Virginia, will manage the Collateral under a Collateral Management Agreement to be entered into on the Closing Date between the Issuer and the Collateral Manager (the "Collateral Management Agreement"). Pursuant to the Collateral Management Agreement and in accordance with the Indenture, the Collateral Manager will manage the selection, acquisition and disposition of the Collateral Debt Securities (including exercising rights and remedies associated with the Collateral Debt Securities) based on the restrictions set forth in

the Indenture (including the Reinvestment Criteria described herein) and on the Collateral Manager's research, credit analysis and judgment. The Collateral Manager will also monitor the Hedge Agreement. For a summary of the provisions of the Collateral Management Agreement and certain other information concerning the Collateral Manager and key individuals associated therewith who will be managing the Issuer's portfolio, see "The Collateral Manager" and "The Collateral Management Agreement".

Use of Proceeds:

The gross proceeds received from the issuance and sale of the Offered Securities are expected to be approximately U.S.\$602,000,000. The net proceeds from the issuance and sale of the Offered Securities, together with an upfront payment made to the Issuer under the Hedge Agreement, are expected to be approximately U.S.\$596,000,000, which reflects the payment from such gross proceeds of organizational and structuring fees and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Initial Purchaser and the Collateral Manager), the expenses of offering the Offered Securities (including placement agency fees payable in connection with the placement of the Offered Securities), the initial deposit into the Interest Reserve Account and the initial deposit into the Expense Account. Such net proceeds will be used by the Issuer to purchase a diversified portfolio of interests in (a) Asset-Backed Securities (including CDO Obligations) and (b) Synthetic Securities the Reference Obligation(s) of which are Asset-Backed Securities that, in each case, satisfy the investment criteria described herein. See "Security for the Notes".

Interest Payments on the Notes:

The Class A-1 Notes will bear interest at a floating rate per annum equal to LIBOR (determined as described herein) plus 0.40%. The Class A-2A Notes will bear interest, and certain third parties will be entitled to compensation, at a floating rate per annum in the aggregate not to exceed LIBOR plus 1.19%. The Class A-2B Notes will bear interest at a floating rate per annum equal to LIBOR plus 0.85%. The Class B Notes will bear interest at a floating rate per annum equal to LIBOR plus 1.15%. The Class C Notes will bear interest at a floating rate per annum equal to LIBOR plus 3.10%. Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed.

Interest on the Notes will accrue from the Closing Date. Accrued and unpaid interest will be payable quarterly in arrears on each Distribution Date if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein. The Issuer will

enter into the Basis Swap (as defined herein) in order to finance the periodic payment of interest on the Class A-2A Notes on dates other than on each Distribution Date, all as described in a supplement to this Offering Circular relating to the Class A-2A Notes (the "Class A-2A Notes Supplement").

So long as any Class A-1 Note, Class A-2 Note or Class B Note remains outstanding, failure to make payment in respect of interest on the Class C Notes on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class C Notes that is not paid when due by operation of the Priority of Payments will be deferred (such interest being referred to herein as "Class C Deferred Interest"). Any Class C Deferred Interest will be added to the aggregate outstanding principal amount of the Class C Notes, and thereafter interest will accrue on the aggregate outstanding principal amount of such Notes as so increased. Unless otherwise specified herein, any reference to the principal amount of the Class C Notes includes any Class C Deferred Interest added thereto. Upon the payment of Class C Deferred Interest previously capitalized as additional principal, the aggregate outstanding principal amount of the Class C Notes will be reduced by the amount of such payment.

Additionally, so long as any Class of Notes is outstanding, if any Coverage Test applicable to such Class of Notes is not satisfied on any Determination Date, then funds that would otherwise be used to make payments on the related Distribution Date in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of Seniority) and, *second*, such Class of Notes, until each applicable Coverage Test is satisfied. See "Description of the Notes—Priority of Payments".

**Distributions on
the Preference Shares:**

On each Distribution Date, to the extent funds are available therefor, Interest Proceeds will be released from the lien of the Indenture for payment to the Preference Share Paying Agent only after the payment of interest on the Notes and certain other amounts in accordance with the Priority of Payments. If on any Distribution Date Preference Shareholders shall have received distributions on the Preference Shares sufficient to achieve a Dividend Yield equal to 15.05% as of such Distribution Date, any excess amount of Interest Proceeds will be applied to pay principal of the Class C Notes until the Class C Notes are paid in full. Until the Notes and certain other amounts have been paid in full, Principal Proceeds are not permitted to be released from the lien of the Indenture and

will not be available to make distributions in respect of the Preference Shares. Subject to provisions of The Companies Law (2003 Revision) of the Cayman Islands governing the declaration and payment of dividends (as described herein), after the Notes have been paid in full Interest Proceeds and Principal Proceeds remaining after all other applications under the Priority of Payments will be released from the lien of the Indenture in accordance with the Priority of Payments and paid to the Preference Share Paying Agent for distribution to the Preference Shareholders on each Distribution Date. Distributions will be made in cash (except certain liquidating distributions). See "Description of the Preference Shares—Distributions".

If any of the Coverage Tests is not satisfied on any Determination Date, funds that would otherwise be distributed to Preference Shareholders on the related Distribution Date (subject to the payment of certain other amounts prior thereto) will be used instead to repay principal of the Notes sequentially in direct order of Seniority, to the extent and as described herein. In addition, if the Issuer is unable to obtain a Rating Confirmation from each Rating Agency prior to the first Determination Date following the Ramp-Up Completion Date, funds that would otherwise be distributed to Preference Shareholders (subject to the payment of certain other amounts prior thereto) will be used to redeem the Notes sequentially in direct order of Seniority, to the extent necessary to obtain a Rating Confirmation from each Rating Agency. See "Description of the Notes—Priority of Payments".

**Maturity; Average Life;
Duration:**

The stated maturity of the Notes is March 6, 2039 (the "Stated Maturity"). Each Class of Notes will mature at the Stated Maturity unless redeemed or repaid prior thereto. The Preference Shares will be redeemed on the Scheduled Preference Share Redemption Date (as defined herein), unless redeemed on an earlier date in accordance with the Priority of Payments. The average life of each Class of Notes and the duration of the Preference Shares may be less than the number of years until the Stated Maturity and the Scheduled Preference Share Redemption Date, respectively. See "Maturity, Prepayment and Yield Considerations" and "Risk Factors—Projections, Forecasts and Estimates".

**Principal Repayment
of the Notes:**

During the Substitution Period, Specified Principal Proceeds received by the Issuer during a Due Period will be used on the next Distribution Date to pay principal of the Notes in accordance with the Priority of Payments (each such payment, a "Substitution Period Notes Prepayment"). The "Substitution Period" is the period from (and including) the Closing Date to (but excluding) the earliest of (a) the Distribution Date occurring in March, 2007, (b) the Distribution Date on which the Collateral Manager specifies that no further investments in substitute Collateral Debt Securities will occur and (c) the date of termination of such period as provided in the Indenture by reason of the occurrence of an Event of Default.

After the Substitution Period, all Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes, with principal of a Class of Notes being paid prior to the payment of principal of each Subordinate Class of Notes. The amount and frequency of principal payments of a Class of Notes will depend upon, among other things, the amount and frequency of payments of such principal and interest received with respect to the Collateral Debt Securities.

Payments of principal will also be made on the Notes in the following circumstances (subject, in each case, to the Priority of Payments) from available Interest Proceeds in accordance with the Priority of Payments: (a) upon the failure of the Issuer to meet any Coverage Test applicable to any Class of Notes as of the related Determination Date, (b) in the event of a Rating Confirmation Failure, (c) if there are available Interest Proceeds for such purpose, the payment of Class C Deferred Interest and (d) if Preference Shareholders shall have received a Dividend Yield equal to 15.05% as of any Distribution Date, any excess Interest Proceeds will be applied to pay principal of any Class C Notes until the Class C Notes are paid in full (a "Class C Notes Prepayment") as provided in clause (14) under the heading "Description of the Notes—Priority of Payments—Interest Proceeds". In addition, the Issuer may redeem the Notes, in whole but not in part, at the applicable Redemption Price therefor on any Distribution Date occurring under the circumstances described in "Description of the Notes—Optional Redemption and Tax Redemption", "—Mandatory Redemption", "—Auction Call Redemption" and "—Priority of Payments—Interest Proceeds". No Optional Redemption may occur prior to the end of the Substitution Period, and no Auction Call Redemption may occur until the Distribution Date occurring in March, 2012.

Substitution Period:

Provided that no Event of Default has occurred and is continuing, any Collateral Debt Security that is not a Defaulted

Security, an Equity Security, a Credit Risk Security or a Credit Improved Security may be sold and the Sale Proceeds therefrom may be reinvested in substitute Collateral Debt Securities during the Substitution Period in compliance with the Reinvestment Criteria. See "Description of the Notes—Substitution Period".

Mandatory Redemption:

Each Class of Notes shall, on any Distribution Date, be subject to mandatory redemption in the event that any Coverage Test applicable to any Class of Notes is not satisfied on the related Determination Date. Any such redemption will be effected, *first*, from Interest Proceeds and, *second* (to the extent that the application of Interest Proceeds pursuant to the Priority of Payments would be insufficient to cause such tests to be satisfied), from Principal Proceeds, in each case to the extent necessary to cause each applicable Coverage Test to be satisfied. Any such redemption will be applied to each outstanding Class of Notes in accordance with its relative Seniority and will otherwise be effected as described below under "Description of the Notes—Priority of Payments".

In the event of a Rating Confirmation Failure, as described under "Description of the Notes—Mandatory Redemption", the Issuer will be required to apply on the first Distribution Date, *first*, Uninvested Proceeds, *second*, Interest Proceeds and, *third*, Principal Proceeds to the repayment of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes, and, *fourth*, the Class C Notes, in accordance with the Priority of Payments, as and to the extent necessary to obtain a Rating Confirmation from each Rating Agency.

In addition, if the Preference Shareholders have received distributions on the Preference Shares sufficient to achieve a Dividend Yield equal to 15.05% as of such Distribution Date, any remaining Interest Proceeds on such Distribution Date will be applied to pay principal of the Class C Notes until the Class C Notes are paid in full. See "Description of the Notes—Principal," "—Mandatory Redemption" and "—Priority of Payments—Interest Proceeds".

Auction Call Redemption:

If the Notes have not been redeemed in full prior to the Distribution Date occurring in March 2012, the Trustee will, at the expense of the Issuer and with the assistance of the Collateral Manager, conduct an auction for the sale of all (and not less than all) of the Collateral Debt Securities in accordance with the procedures set forth in the Indenture and, provided certain conditions described herein are satisfied, the Collateral Debt Securities will be sold and the Notes will be redeemed on such Distribution Date. Any Auction to be conducted on any Distribution Date will be subject to the

requirement that holders of the Preference Shares shall have received (after giving effect to the distribution in accordance with the Priority of Payments of proceeds of the sale at auction of the Collateral Debt Securities) distributions thereon necessary (a) in the case of an Auction Call Redemption on any Distribution Date occurring in or after March 2012 to but prior to March 2014, to achieve an annualized internal rate of return (an "IRR") equal to 15.05% or (b) in the case of an Auction Call Redemption on a Distribution Date in or after March 2014, to distribute an amount at least equal to the Preference Share Stated Balance at such time plus all unpaid Preference Share Stated Coupon accrued to such time. If such conditions are not satisfied and the auction is not successfully conducted prior to such Distribution Date, the Trustee will continue to conduct such auctions on a quarterly basis prior to each next succeeding Distribution Date until the Notes are redeemed in full. The Auction Call Redemption will be conducted in accordance with the Auction Call Redemption Procedures set forth in the Indenture. See "Description of the Notes—Auction Call Redemption".

**Optional Redemption and
Tax Redemption
of the Notes:**

Subject to certain conditions described herein, the Issuer may redeem the Notes (such redemption, an "Optional Redemption"), in whole but not in part, at the direction of a Majority-in-Interest of Preference Shareholders at the applicable Redemption Price therefor. See "Description of the Notes—Optional Redemption and Tax Redemption". No Optional Redemption may occur prior to the end of the Substitution Period.

In addition, upon the occurrence of a Tax Event, the Issuer may redeem the Notes (such redemption, a "Tax Redemption"), in whole but not in part, at the direction of the holders of a majority in aggregate outstanding principal amount of any Class of Notes that, as a result of the occurrence of such Tax Event, has not received 100% of the aggregate amount of principal and interest payable to such Class on any Distribution Date during or after the Substitution Period (each such Class, an "Affected Class"). Any such redemption may only be effected on a Distribution Date and only from (a) Sale Proceeds of the Collateral and (b) all other funds in the Interest Collection Account, the Principal Collection Account, the Uninvested Proceeds Account, the Expense Account, the Interest Equalization Account, the Interest Reserve Account and the Payment Account on such Distribution Date, at the applicable Redemption Price. No Tax Redemption may be effected, however, unless (i) all Sale Proceeds under clause (a) above are used to make such a Tax Redemption, (ii) funds under clauses (a) and (b) are

sufficient to redeem all of the Notes simultaneously and to pay certain other amounts in accordance with the procedures set forth in the Indenture, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied. See "Description of the Notes—Optional Redemption and Tax Redemption".

Security for the Notes:

Pursuant to the Indenture, the Notes, together with the Issuer's obligations to the Collateral Manager under the Collateral Management Agreement and the Hedge Counterparty under the Hedge Agreement, will be secured by: (i) the Collateral Debt Securities and Equity Securities; (ii) amounts on deposit in the Custodial Account, the Expense Account, the Hedge Counterparty Collateral Account, the Interest Collection Account, the Interest Equalization Account, the Interest Reserve Account, the Payment Account, the Principal Collection Account and the Uninvested Proceeds Account and Eligible Investments and U.S. Agency Securities purchased with funds on deposit in such accounts; (iii) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Securities Purchase Agreement, the Subscription Agreements and the Hedge Agreement; and (iv) all proceeds of the foregoing (collectively, the "Collateral"). In the event of any realization on the Collateral, proceeds will be allocated to the payment of each Class of Notes in accordance with the respective priorities established by the Priority of Payments.

Acquisitions and Dispositions of Collateral:

On the Closing Date, the Issuer will have purchased (or entered into agreements to purchase for settlement following the Closing Date) Collateral Debt Securities having an aggregate principal balance of not less than U.S.\$390,000,000. The Issuer expects that, no later than the 120th day following the Closing Date, it will have purchased Collateral Debt Securities having an aggregate par amount of approximately U.S.\$600,000,000.

The Collateral Debt Securities purchased by the Issuer will, on the date of purchase, have the characteristics and satisfy the criteria set forth herein under "Security for the Notes — Collateral Debt Securities" and "—Reinvestment Criteria". Although the Issuer expects that the Collateral Debt Securities purchased by it will, on the Ramp-Up Completion Date, satisfy the Collateral Quality Tests and Coverage Tests described herein, there is no assurance that such tests will be satisfied on such date. Failure to satisfy such tests on the Ramp-Up Completion Date may result in the repayment or redemption of a portion of the Notes (according to the priority specified in the Priority of Payments). See "Description of the Notes—Mandatory Redemption".

Liquidation of Collateral Debt Securities:

No investment will be made in Collateral Debt Securities after the last day of the Substitution Period. No investments will be made from Specified Principal Proceeds. Any Specified Principal Proceeds will be used to pay principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes and, *fourth*, the Class C Notes.

On March 6, 2039 or in connection with any Optional Redemption, Tax Redemption or Auction Call Redemption, the Collateral Debt Securities, Eligible Investments and other Collateral will be liquidated, and there will be distributed to the Preference Shareholders in accordance with the Priority of Payments all net proceeds from such liquidation and all available cash after the payment (in the order of priorities set forth under "Description of the Notes—Priority of Payments") of all (i) fees, (ii) expenses (including the amounts due to the Hedge Counterparty) and (iii) principal of and interest (including any Defaulted Interest and interest on Defaulted Interest, and, in the case of the Class C Notes, any Class C Deferred Interest and interest on the Class C Deferred Interest) on the Notes.

The Issuer Charter provides that the Issuer will be wound up on the earliest to occur of (i) at any time on or after the date falling thirty-six years and two days after the Closing Date, upon the Directors' determination to dissolve the Issuer, (ii) at any time after the sale or other disposition of all of the Issuer's assets, upon the Directors' determination to dissolve the Issuer, (iii) at any time after the Notes are paid in full, upon the Directors' determination to dissolve the Issuer and (iv) on the date of a winding up pursuant to the provisions of or as contemplated by The Companies Law of the Cayman Islands as then in effect.

The Directors of the Issuer currently intend, in the event that the Preference Shares are not redeemed at the option of a Majority-in-Interest of Preference Shareholders following the repayment in full of the Notes, to liquidate all of the Issuer's remaining investments in an orderly manner and, subject to Cayman Islands Law, distribute the proceeds of such liquidation to the Preference Shareholders.

The Placement:

The Offered Securities are being offered for sale by Merrill Lynch, Pierce, Fenner & Smith Incorporated and its affiliates (the "Initial Purchaser") to investors (the "Original Purchasers") (a) in the United States who are qualified institutional buyers as defined in Rule 144A (each a "Qualified Institutional Buyer") or, in the case of purchasers of Preference Shares, accredited investors within the meaning of Rule 501(a) under the Securities Act (each an "Accredited Investor") in reliance on the exemption from registration under the Securities Act and,

in each case, Qualified Purchasers acquiring the relevant Offered Securities for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A) and (b) outside the United States who are not U.S. Persons in offshore transactions in reliance on Regulation S and, in each case, in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. A "Qualified Purchaser" is (i) a "qualified purchaser" as defined in the Investment Company Act, (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 under the Investment Company Act or (iii) a company beneficially owned exclusively by one or more "qualified purchasers" and/or "knowledgeable employees" with respect to the Issuer. See "Plan of Distribution" and "Transfer Restrictions".

Ratings:

It is a condition to the issuance of the Offered Securities that each Class of Class A Notes be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"), "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), and "AAA" by Fitch Ratings ("Fitch", and together with Moody's and Standard & Poor's, the "Rating Agencies"), that the Class B Notes be rated "Aa2" by Moody's, "AA" by Standard & Poor's and "AA" by Fitch, that the Class C Notes be rated "Baa2" by Moody's, "BBB" by Standard & Poor's and "BBB" by Fitch and that the Preference Shares be rated "Ba3" by Moody's, "BB-" by Standard & Poor's and "BB-" by Fitch. The ratings of the Class A Notes and the Class B Notes address the ultimate payment of principal of, and the timely payment of interest on, such Notes. The ratings of the Class C Notes address the ultimate payment of principal of and interest on the Class C Notes. The ratings of the Preference Shares address the ultimate receipt of the Preference Share Stated Balance and Preference Share Stated Coupon (as defined herein), or, in the case of the Moody's and Fitch ratings of the Series 2 Preference Shares, the receipt of an IRR of 2%.

Minimum Denominations:

The Notes will be issuable in a minimum denomination of U.S.\$250,000 and will be offered only in such minimum denomination or an integral multiple of U.S.\$1,000 in excess thereof, except that interests in the Notes offered in reliance on Regulation S will be offered in a minimum denomination of U.S.\$100,000 or an integral multiple of U.S.\$1,000 in excess thereof. See "Transfer Restrictions".

After issuance, (i) a Note may fail to be in compliance with the minimum denomination requirement stated above as a result of the repayment of principal thereof in accordance with the Priority of Payments and (ii) Class C Notes may fail to be in an amount which is an integral multiple of U.S.\$1,000 due to the

addition to the principal amount thereof of Class C Deferred Interest or due to a Class C Notes Prepayment. As of the date hereof, the Issuer is authorized to issue 19,100 Series 1 Preference Shares, par value U.S.\$0.01 per share and 5,500 Series 2 Preference Shares, par value U.S.\$0.01 per share. The liquidation preference of each Series 1 Preference Share will be U.S.\$1,000 per share. The minimum number of Preference Shares to be issued to an investor shall initially be 100, representing an original capital contribution of U.S.\$100,000. Preference Shares may not be transferred if, after giving effect to such transfer, the transferee (or, if the transferor retains any Preference Shares, the transferor) would own fewer than 100 Preference Shares.

**Form, Registration
and Transfer of
the Notes:**

The Notes offered in reliance upon Regulation S ("Regulation S Notes") will be represented by one or more global notes ("Regulation S Global Notes") in fully registered form without interest coupons deposited with the Trustee as custodian for, and registered in the name of, The Depository Trust Company ("DTC") (or its nominee) initially for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Interests in the Regulation S Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants (including Euroclear and Clearstream, Luxembourg). By acquisition of a beneficial interest in a Regulation S Global Note, any purchaser thereof will be deemed to represent that (a) it is not a U.S. Person and is purchasing such beneficial interest for its own account and not for the account or benefit of a U.S. Person and (b) if in the future it decides to transfer such beneficial interest, it will transfer such interest only to a person that is not a U.S. Person in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Global Note (or beneficial interest therein).

The Notes offered in the United States pursuant to an exemption from the registration requirements of the Securities Act ("Restricted Notes") will be represented by one or more global notes ("Restricted Global Notes") in fully registered form without interest coupons deposited with the Trustee as custodian for, and registered in the name of, DTC (or its nominee). Interests in Restricted Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

The Regulation S Global Notes and the Restricted Global Notes are collectively referred to herein as "Global Notes". Under certain limited circumstances described herein, definitive registered Notes may be issued in exchange for Global Notes.

No Note (or any interest therein) may be transferred to a transferee acquiring an interest in a Restricted Note except (a) to a transferee whom the seller reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements provided by Rule 144A, (b) to a transferee that is a Qualified Purchaser, (c) in compliance with the certification (if any) and other requirements set forth in the Indenture and (d) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

No Note (or any interest therein) may be transferred to a transferee acquiring an interest in a Regulation S Note except (a) to a transferee that is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 903 or Rule 904 of Regulation S, (b) to a transferee that is not a U.S. Person unless such transferee is a Qualified Purchaser, (c) in compliance with the certification (if any) and other requirements set forth in the Indenture and (d) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

No Note (or any interest therein) may be transferred, and neither the Trustee nor the Note Registrar will recognize any such transfer, unless (a) such transfer is made in a manner exempt from registration under the Securities Act, (b) such transfer is made in denominations greater than or equal to the minimum denomination therefor, (c) such transfer would not have the effect of requiring either of the Co-Issuers or the Collateral to register as an investment company under the Investment Company Act and (d) the transferee is able to make all applicable certifications and representations required by the relevant transfer certificate attached as an exhibit to the Indenture (if the Indenture requires that a transfer certificate be delivered in connection with such a transfer). Notwithstanding the foregoing, (x) an owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification, *provided* that any such transfer may only be made to a person that is not a U.S. Person and that is not acquiring such beneficial interest for the account or benefit of a U.S. Person and any such transfer may only be effected in an offshore transaction in accordance with

Regulation S and only in accordance with the Applicable Procedures and (y) an owner of a beneficial interest in a Restricted Global Note (other than a Class A-2A Note) may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification. Any such transferee must be able to make the representations set forth under "Transfer Restrictions". See "Description of the Notes—Form, Denomination, Registration and Transfer" and "Transfer Restrictions".

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner of a Note (or any interest therein) (A) is a U.S. Person and (B) is not both a Qualified Institutional Buyer and also a Qualified Purchaser, then either of the Co-Issuers may require, by notice to such Holder, that such Holder sell all of its right, title and interest to such Note, to a person that is both a Qualified Institutional Buyer and a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by the Trustee in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market) to a person that certifies to the Trustee, the Co-Issuers and the Collateral Manager, in connection with such transfer, that such person is both a Qualified Institutional Buyer and a Qualified Purchaser and (ii) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

**Form, Registration
and Transfer of the
Preference Shares:**

The Preference Shares being offered by the Issuer in the United States in reliance upon an exemption from the registration requirements of the Securities Act ("Restricted Preference Shares") will be represented by certificates in fully registered, definitive form registered in the name of the beneficial owner thereof (or a nominee acting on behalf of the disclosed beneficial owner thereof).

The Preference Shares offered in reliance upon Regulation S ("Regulation S Preference Shares") will be represented by one or more global certificates in fully registered form deposited with, and registered in the name of DTC (or its nominee) initially for the accounts of Euroclear and/or Clearstream, Luxembourg. Interests in the Regulation S Preference Shares

will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants (including Euroclear and Clearstream, Luxembourg). By acquisition of a beneficial interest in a Regulation S Preference Share, any purchaser thereof will be deemed to represent that (a) it is not a U.S. Person and is purchasing such beneficial interest for its own account and not for the account or benefit of a U.S. Person and (b) if in the future it decides to transfer such beneficial interest, it will transfer such interest only to a person that is not a U.S. Person in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Preference Share (or beneficial interest therein).

Under certain limited circumstances described herein, definitive registered share certificates may be issued in exchange for Regulation S Preference Shares.

No Preference Share (or any interest therein) may be transferred to a transferee acquiring Restricted Preference Shares except (a) (i) to a transferee whom the seller reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements provided by Rule 144A or (ii) to an Institutional Accredited Investor in accordance with another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (b) to a transferee that is a Qualified Purchaser, (c) to a transferee that is not a Benefit Plan Investor or Controlling Person, (d) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (e) if such transfer is made in compliance with the certification and other requirements set forth in the Issuer Charter and the Preference Share Paying Agency Agreement and (f) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

No Preference Share (or any interest therein) may be transferred to a transferee acquiring an interest in a Regulation S Preference Share except (a) to a transferee that is not a U.S. Person and that is not acquiring such beneficial interest for the account or benefit of a U.S. Person and any such transfer may only be effected in an offshore transaction in accordance with Regulation S and only in accordance with the Applicable Procedures, (b) to a transferee that is not a U.S.

Person unless such transferee is a Qualified Purchaser, (c) to a transferee that is not a Flow-Through Investment Vehicle unless such transferee is a Qualifying Investment Vehicle, (d) to a transferee that is not a Benefit Plan Investor or Controlling Person, (e) if such transfer is made in compliance with the certification and other requirements set forth in the Issuer Charter and the Preference Share Paying Agency Agreement and (f) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. Without limiting the foregoing, no Preference Share may be transferred to a transferee acquiring an interest in a Regulation S Preference Share unless the transferee executes and delivers to the Issuer, the Preference Share Paying Agent and the Collateral Manager a letter in the form attached as an exhibit to the Preference Share Paying Agency Agreement to the effect that such purchaser will not transfer such interest except in compliance with the transfer restrictions set forth in the Preference Share Paying Agency Agreement (including the requirement that any subsequent transferee execute and deliver such letter).

No Preference Share (or any interest therein) may be transferred, and none of the Trustee, the Issuer and the Preference Share Registrar will recognize any such transfer, unless (a) such transfer is made in a manner exempt from registration under the Securities Act, (b) such transfer is made in a number greater than or equal to the minimum denomination therefor, (c) such transfer would not have the effect of requiring either of the Co-Issuers or the Collateral to register as an investment company under the Investment Company Act and (d) the transferee is able to make all applicable certifications and representations required by the Issuer Charter. See "Description of the Preference Shares—Form, Registration and Transfer" and "Transfer Restrictions".

The Preference Share Paying Agency Agreement provides that if, notwithstanding the foregoing restrictions, the Issuer determines that any beneficial owner of Preference Shares (A) is a U.S. Person (within the meaning of Regulation S under the Securities Act) and (B) is not both (1) a Qualified Institutional Buyer or an Institutional Accredited Investor (or an Accredited Investor that purchased such Preference Share or any interest therein directly from the Initial Purchaser) and (2) a Qualified Purchaser, then the Issuer may require, by notice to such holder, that such holder sell all of its right, title and interest to such Preference Shares to a person that is (1) a Qualified Institutional Buyer or an Institutional Accredited Investor and (2) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer

required within such 30-day period, (I) upon direction from the Collateral Manager or the Issuer, the Preference Share Registrar, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Shares to be transferred in a commercially reasonable sale (conducted by the Preference Share Paying Agent in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market) to a person that certifies to the Preference Share Paying Agent, the Preference Share Registrar, the Issuer and the Collateral Manager, in connection with such transfer, that such person is (x) a Qualified Institutional Buyer or an Institutional Accredited Investor and (y) a Qualified Purchaser and (II) pending such transfer, no further payments will be made in respect of the Preference Shares held by such beneficial owner.

Listing:

Application has been made to the Irish Stock Exchange to admit the Offered Securities (other than the Class A-2A Notes) to the Daily Official List, but there can be no assurance that such admission will be granted. No application will be made to list the Offered Securities on any other exchange. See "Listing and General Information".

**Listing Agent;
Irish Paying Agent:**

NCB Stockbrokers Limited.

Governing Law:

The Notes, the Indenture, the Subscription Agreements, the Collateral Management Agreement, the Hedge Agreement, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement and the Securities Purchase Agreement will be governed by, and construed in accordance with, the law of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by, and construed in accordance with, the law of the Cayman Islands.

Tax Matters:

See "Income Tax Considerations".

Benefit Plan Investors:

See "ERISA Considerations".

RISK FACTORS

An investment in the Offered Securities involves certain risks. Prospective investors should carefully consider the following factors, in addition to the matters set forth elsewhere in this Offering Circular, prior to investing in the Offered Securities. There can be no assurance that the Collateral will not incur losses, that the Collateral Manager's investment objectives will be achieved or that the investors in any of the Offered Securities will receive a return of any or all of their invested capital.

Limited Liquidity and Restrictions on Transfer. There is currently no market for the Offered Securities. Although the Initial Purchaser may from time to time make a market in Offered Securities, the Initial Purchaser is under no obligation to do so. In the event that the Initial Purchaser commences any market-making, it may discontinue the same at any time. There can be no assurance that a secondary market for any of the Offered Securities will develop, or if a secondary market does develop, that it will provide the holders of such Offered Securities with liquidity of investment or that it will continue for the life of the Offered Securities. In addition, the Offered Securities are subject to certain transfer restrictions and can only be transferred to certain transferees as described under "Transfer Restrictions". Consequently, an investor in the Offered Securities must be prepared to hold its Offered Securities for an indefinite period of time or until the Stated Maturity of the Notes or the Scheduled Preference Share Redemption Date, respectively. Such restrictions on the transfer of the Offered Securities may further limit the liquidity of the Offered Securities. See "Transfer Restrictions".

Limited-Recourse Obligations. The Notes are limited-recourse obligations of the Co-Issuers. The Notes are payable solely from the Collateral Debt Securities and other Collateral pledged by the Issuer to secure the Notes. None of the security holders, members, officers, directors, managers or incorporators of the Issuer, the Co-Issuer, the Trustee, the Preference Share Paying Agent, the Administrator, the Rating Agencies, the Share Trustee, the Collateral Manager, the Initial Purchaser, any of their respective affiliates and any other person or entity will be obligated to make payments on the Notes. Consequently, the Noteholders must rely solely on amounts received in respect of the Collateral Debt Securities and other Collateral pledged to secure the Notes for the payment of principal thereof and interest thereon. There can be no assurance that the distributions on the Collateral Debt Securities and other Collateral pledged by the Issuer to secure the Notes will be sufficient to make payments on any Class of Notes, in particular after making payments on more Senior Classes of Notes and certain other required amounts ranking Senior to such Class. The Issuer's ability to make payments in respect of any Class of Notes will be constrained by the terms of the Notes of Classes more Senior to such Class and the Indenture. If distributions on the Collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Collateral, the obligations of the Co-Issuers to pay such deficiencies will be extinguished. The Preference Shares will be part of the issued share capital of the Issuer. The Issuer's obligation to make distributions on the Preference Shares will therefore not be a secured obligation of the Issuer. Holders of the Preference Shares will only be entitled to receive amounts available for distributions after payment of all amounts payable prior thereto under the Priority of Payments and, except in the case of the payment of excess Principal Proceeds upon redemption of the Preference Shares, only to the extent of distributable profits of the Issuer and any balance in the Issuer's share premium account and (in each case) only to the extent that the Issuer is and will remain solvent following such distributions.

Subordination of each Class of Subordinate Notes. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that are

Senior to such Class and that remain outstanding has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and all accrued and unpaid interest on, the Notes of each Class that are Senior to such Class and that remain outstanding have been paid in full, except (i) for the payment of Class C Deferred Interest from Interest Proceeds in certain circumstances and (ii) that, after the Preference Shareholders have received on any Distribution Date a dividend on the Preference Shares resulting in a Dividend Yield equal to 15.05% as of such Distribution Date, Interest Proceeds that would otherwise be distributed to the Preference Shareholders will be applied to pay principal of any outstanding Class C Notes until the Class C Notes are paid in full. See "Description of the Notes—Priority of Payments". If an Event of Default occurs, so long as any Notes are outstanding, the holders of the most Senior Class of Notes then outstanding will be entitled to determine the remedies to be exercised under the Indenture. So long as any Class A Notes or Class B Notes remain outstanding, the failure to make payment in respect of interest on the Class C Notes on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class C Notes that is not paid when due by operation of the Priority of Payments will be deferred. In the event of any realization on the Collateral, proceeds will be allocated to the Notes and other amounts in accordance with the Priority of Payments prior to any distribution to the Preference Shareholders. See "Description of the Notes—The Indenture" and "—Priority of Payments".

Remedies pursued by the holders of the Class or Classes of Notes entitled to determine the exercise of such remedies could be adverse to the interest of the holders of the other Classes of Notes. To the extent that any losses are suffered by any of the holders of any Offered Securities, such losses will be borne *first*, by the holders of the Preference Shares, *second*, by the holders of the Class C Notes, *third*, by the holders of the Class B Notes, *fourth*, by the holders of the Class A-2 Notes and *fifth*, by the holders of the Class A-1 Notes.

Payments in respect of the Preference Shares. The Preference Shares are equity in the Issuer and are not secured by the Collateral Debt Securities or the other Collateral securing the Notes. As such, the Preference Shareholders will, on a winding up of the Issuer, rank behind all of the creditors of the Issuer, whether secured or unsecured and known or unknown, including, without limitation, the holders of the Notes, the Hedge Counterparty and any judgment creditors. Except with respect to the obligations of the Issuer to make payments as described under "Description of the Offered Securities—Priority of Payments", the Issuer does not expect to have any creditors.

Payments in respect of the Preference Shares are subject to certain requirements imposed by Cayman Islands law. Any amounts paid by the Preference Share Paying Agent as distributions by way of dividend on the Preference Shares pursuant to the Issuer Charter and related resolutions, the Preference Share Paying Agency Agreement and certain resolutions passed by the Issuer's Board of Directors concerning the Preference Shares (all such documents together, the "Preference Share Documents") will be payable only if the Issuer has sufficient distributable profits or share premium. In addition, such distributions and the final payment upon redemption of the Preference Shares will be payable only to the extent that the Issuer is and remains solvent after such distributions are paid. Under Cayman Islands law, a company is generally deemed solvent if it is able to pay its debts as they come due. To the extent that such requirements under Cayman Islands law are not met, amounts otherwise payable to the Preference Shareholders will be retained by the Issuer until, in the case of a distribution by way of dividend, the next succeeding Distribution Date on which such requirements are met and, in the case of any payment on redemption of the Preference Shares, the next succeeding Business Day on which such requirements are met. Amounts so retained by the Issuer will not

be available to pay amounts due to the holders of the Notes, the Trustee, the Collateral Manager, the Hedge Counterparty or any other creditor of the Issuer whose claim is limited in recourse to the Collateral. However, amounts so retained will be subject to the claims of creditors of the Issuer (if any) that have not contractually limited their recourse to the Collateral. There can be no assurance that, after payment of principal and interest on the Notes and other fees and expenses of the Co-Issuers in accordance with the Priority of Payments, the Issuer will have funds remaining to make distributions in respect of the Preference Shares. See "Description of the Notes—Priority of Payments".

Volatility of the Preference Shares, Class B Notes and Class C Notes. The Preference Shares (and to a lesser extent, the Class B Notes and Class C Notes) represent a leveraged investment in the underlying Collateral. Therefore, it is expected that changes in the value of the Preference Shares and the Class B Notes and Class C Notes will be greater than the change in the value of the underlying Collateral Debt Securities, which themselves are subject to credit, liquidity, interest rate and other risks. Utilization of leverage is a speculative investment technique and involves certain risks to investors, particularly to investors that bear the first risk of loss. The indebtedness of the Issuer under the Notes will result in interest expense and other costs incurred in connection with such indebtedness that may not be covered by proceeds received from the Collateral. The use of leverage generally magnifies the Issuer's opportunities for gain and risk of loss.

Diversion of Interest Proceeds. In addition, if on any Distribution Date Preference Shareholders have received distributions on the Preference Shares sufficient to achieve a Dividend Yield equal to 15.05% as of such Distribution Date, any remaining Interest Proceeds on such Distribution Date will be applied to pay principal of the Class C Notes until the Class C Notes are paid in full. See "Description of the Notes—Principal," "—Mandatory Redemption" and "—Priority of Payments—Interest Proceeds".

Nature of Collateral. The Collateral is subject to credit, liquidity interest rate, market, operations, fraud and structural risks. In addition, a significant portion of the Collateral will be acquired by the Issuer after the Closing Date, and, accordingly, the financial performance of the Issuer may be affected by the price and availability of Collateral to be purchased. The amount and nature of the collateral securing the Notes have been established to withstand certain assumed deficiencies in payment occasioned by defaults in respect of the Collateral Debt Securities. See "Rating of the Offered Securities". If any deficiencies exceed such assumed levels, however, payment of the Notes and distributions on the Preference Shares could be adversely affected. To the extent that a default occurs with respect to any Collateral Debt Security securing the Notes and the Issuer (upon the advice of the Collateral Manager) sells or otherwise disposes of such Collateral Debt Security, it is not likely that the proceeds of such sale or disposition will be equal to the amount of principal and interest owing to the Issuer in respect of such Collateral Debt Security.

There do not exist reliable sources of statistical information with respect to the default rates for many of the types of Collateral Debt Securities eligible to be purchased by the Issuer. In addition, historical economic performance of a particular type of Collateral Debt Securities is not necessarily indicative of its future performance. Prospective purchasers of the Offered Securities should consider and determine for themselves the likely level of defaults and the level of recoveries on the Collateral Debt Securities and the resulting consequences on their investment in the Offered Securities.

The market value of the Collateral Debt Securities generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the Collateral Debt Securities or, with respect to Synthetic Securities, of the obligors on or issuers of the Reference Obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

Under the Indenture, the Collateral Manager may only direct the disposition of Collateral Debt Securities under certain limited circumstances. Notwithstanding such restrictions and satisfaction of the conditions set forth in the Indenture, sales and purchases of Collateral Debt Securities could result in losses by the Issuer, which losses could affect the timing and amount of payments in respect of the Notes and Preference Shares or result in the reduction in or withdrawal of the rating of any or all of the Notes or the Preference Shares by one or more of the Rating Agencies. On the other hand, circumstances may exist under which the Collateral Manager may believe that it is in the best interests of the Issuer to dispose of Collateral, but will not be permitted to do so under the restrictions and conditions of the Indenture.

Asset-Backed Securities. Most of the Collateral Debt Securities will consist of Asset-Backed Securities, which include, without limitation, Aerospace and Defense Securities, Automobile Securities, Bank Guaranteed Securities, Car Rental Receivable Securities, CBO Securities, CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities, Credit Card Securities, Healthcare Securities, Home Equity Loan Securities, Insurance Company Guaranteed Securities, Manufactured Housing Securities, Mutual Fund Fee Securities, Oil and Gas Securities, Project Finance Securities, REIT Debt Securities—Diversified, REIT Debt Securities—Health Care, REIT Debt Securities—Hotel, REIT Debt Securities—Industrial, REIT Debt Securities—Multi-Family, REIT Debt Securities—Office, REIT Debt Securities—Retail, REIT Debt Securities—Residential, REIT Debt Securities—Storage, Residential A Mortgage Securities, Residential B/C Mortgage Securities, Restaurant and Food Service Securities, Small Business Loan Securities, Student Loan Securities, Subprime Automobile Securities and Tax Lien Securities. "Asset-Backed Securities" are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities. See "Security for the Notes—Asset-Backed Securities".

Holders of Asset-Backed Securities bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. Credit risk is an important issue in Asset-Backed Securities because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all Asset-Backed Securities are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such Asset-Backed Securities, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to

provide support to the issuing vehicle or to the investors in such Asset-Backed Securities. Holders of Asset-Backed Securities bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. See "Security for the Notes—Asset-Backed Securities" below.

A significant portion of the Collateral will consist of Asset-Backed Securities that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the transactions in which such securities are issued have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. In certain circumstances, payments of interest may be reduced or eliminated for one or more payment dates. Additionally, as a result of cash flow being diverted to payments of principal on more senior classes, the average life of such securities may lengthen. Subordinate Asset-Backed Securities generally do not have the right to call a default or vote on remedies following a default unless more senior securities have been paid in full. As a result, a shortfall in payments to subordinate investors in Asset-Backed Securities will generally not result in a default being declared on the transaction and the transaction will not be restructured or unwound. Furthermore, because subordinate Asset-Backed Securities may represent a relatively small percentage of the size of the asset pool being securitized, the impact of a relatively small loss on the overall pool may be substantial with regard to the holders of such subordinate securities.

A significant portion of the Asset-Backed Securities acquired by the Issuer may consist of commercial mortgage-backed securities meeting the Reinvestment Criteria described herein, including Synthetic Securities the reference obligations of which are commercial mortgage-backed securities. Commercial mortgage loans underlying commercial mortgage-backed securities are generally secured by multi-family or commercial property and may entail risks of delinquency and foreclosure, and risks of loss in the event thereof, that are greater than similar risks associated with loans secured by single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced (for example, if rental or occupancy rates decline or real estate tax rates or other operating expenses increase), the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things, tenant mix, success of tenant businesses, property management decisions (including responding to changing market conditions, planning and implementing rental or pricing structures and causing maintenance and capital improvements to be carried out in a timely fashion), property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property and the occurrence of any uninsured casualty at the property.

The value of an income-producing property is directly related to the net operating income derived from such property. Furthermore, the value of any commercial property may be adversely affected by risks generally incident to interests in real property, including various events which the related borrower and/or manager of the commercial property, the issuer, the depositor, the manager, the indenture trustee, the master servicer or the special servicer may be unable to predict or control, such as: changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates;

increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies, including environmental legislation; acts of God; environmental hazards; and social unrest and civil disturbances.

Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel's operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements.

Furthermore, a commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable for any reason. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses.

With respect to Asset-Backed Securities that are supported by or otherwise related to commercial and residential real estate, the underlying owner, lessor or lessee of such real estate would typically be required to maintain comprehensive all-risk casualty insurance (which may be provided under a blanket insurance policy), but documentary requirements may not specify the nature of the specific risks required to be covered by such insurance policies. In light of terrorist attacks in New York City, Arlington, Virginia and Pennsylvania in September, 2001, many reinsurance companies (which assume some of the risk of the policies sold by primary insurers) have eliminated, or indicated that they intend to eliminate, coverage for acts of terrorism from their reinsurance policies; many primary insurance companies have eliminated terrorism insurance coverage in their standard policies; coverage for terrorist acts may be available only at rates significantly higher than other types of insurance; and owners, lessors and lessees may not be able to obtain renewal policy coverage for terrorist acts at any price.

REIT Debt Securities. A portion of the Collateral Debt Securities may consist of REIT Debt Securities or Synthetic Securities the reference obligations of which are REIT Debt Securities. REIT Debt Securities will consist of obligations of real estate investment trusts ("REITs"), or qualified REIT subsidiaries meeting the Reinvestment Criteria described herein. The Issuer may invest in additional types of REIT Debt Securities, *provided* that the Rating Condition is satisfied with respect to such investment.

Investments in REIT Debt Securities involve special risks. In particular, REITs and qualified REIT subsidiaries (all discussion concerning the risks relating to REITs herein being generally applicable to such subsidiaries) generally are permitted to invest solely in real estate or real estate related assets and are subject to the inherent risks associated with such investments. Consequently, the financial condition of any REIT may be affected by the risks described above with respect to commercial mortgage loans and mortgage-backed securities and similar risks, including (i) risks of delinquency and foreclosure and risks of loss in the event thereof, (ii) the dependence upon the successful operation of and net income from real property, (iii) risks generally incident to interests in real property, including those described above,

(iv) risks that may be presented by the type and use of a particular commercial property and (v) the difficulty of converting certain property to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable for any reason.

In addition, risks of REIT Debt Securities may include (among other risks) (i) limited liquidity and secondary market support, (ii) substantial market price volatility resulting from changes in prevailing interest rates, (iii) subordination to the prior claims of banks and other senior lenders, (iv) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates that could cause the Issuer to reinvest premature redemption proceeds in lower yielding Collateral Debt Securities, (v) the possibility that earnings of the REIT Debt Security issuer may be insufficient to meet its debt service and (vi) the declining creditworthiness and potential for insolvency of the issuer of such REIT Debt Securities during periods of rising interest rates and economic downturn. An economic downturn or an increase in interest rates could severely disrupt the market for REIT Debt Securities and adversely affect the value of outstanding REIT Debt Securities and the ability of the issuers thereof to repay principal and interest.

Issuers of REIT Debt Securities may be highly leveraged and may not have available to them more traditional methods of financing. The risk associated with acquiring the securities of such issuers generally is greater than is the case with highly rated securities. For example, during an economic downturn or a sustained period of rising interest rates, issuers of REIT Debt Securities may be more likely to experience financial stress, especially if such issuers are highly leveraged. During such periods, timely service of debt obligations may also be adversely affected by specific issuer developments, or the unavailability of additional financing. The risk of loss due to default by the issuer may be significant for the holders of REIT Debt Securities because such securities may be unsecured and may be subordinated to other creditors of the issuer of such securities.

Downward movements in interest rates could also adversely affect the performance of REIT Debt Securities. REIT Debt Securities may have call or redemption features that would permit the issuer thereof to repurchase the securities from the Issuer. If a call were exercised by the issuer of REIT Debt Securities during a period of declining interest rates, it is likely that the Issuer would have to replace such called REIT Debt Securities with lower yielding Collateral Debt Securities.

As a result of the limited liquidity of REIT Debt Securities, their prices have at times experienced significant and rapid decline when a substantial number of holders have decided to sell. In addition, the Issuer may have difficulty disposing of certain REIT Debt Securities because there may be a thin trading market for such securities. Reduced secondary market liquidity may have an adverse impact on market price and the Issuer's ability to dispose of particular issues when necessary to meet the Issuer's liquidity needs or in response to a specific economic event such as a deterioration in the creditworthiness of the issuer of such securities. Reduced secondary market liquidity for certain REIT Debt Securities also may make it more difficult for the Issuer to obtain accurate market quotations for purposes of valuing the Issuer's portfolio. Market quotations are generally available on many REIT Debt Securities only from a limited number of dealers and may not necessarily represent firm bids of such dealers or prices for actual sales.

Synthetic Securities. As described above, a portion of the Collateral Debt Securities may consist of Synthetic Securities the Reference Obligations of which are Asset-Backed

Securities. Investments in such types of assets through the purchase of Synthetic Securities present risks in addition to those resulting from direct purchases of such Collateral Debt Securities. With respect to Synthetic Securities, the Issuer will usually have a contractual relationship only with the counterparty of such Synthetic Security, and not the Reference Obligor on any related Reference Obligation. The Issuer generally will have no right directly to enforce compliance by the Reference Obligor with the terms of either the Reference Obligation or any rights of set-off against the Reference Obligor, nor will the Issuer generally have any voting or other consensual rights of ownership with respect to the Reference Obligation. The Issuer will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. In addition, in the event of the insolvency of the counterparty, the Issuer will be treated as a general creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the Issuer will be subject to the credit risk of the counterparty as well as that of the Reference Obligor. As a result, concentrations of Synthetic Securities entered into with any one counterparty will subject the Notes to an additional degree of risk with respect to defaults by such counterparty as well as by the Reference Obligor. One or more affiliates of the Initial Purchaser may act as counterparty with respect to all or a portion of the Synthetic Securities, which relationship may create certain conflicts of interest. See "—Certain Conflicts of Interest—Conflicts of Interest Involving the Initial Purchaser".

Violations of consumer protection laws may result in losses on Home Equity Loan Securities. Applicable state laws generally regulate interest rates and other charges and require specific disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers from unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the loans backing Home Equity Loan Securities. Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of these laws, policies and principles may limit the ability of the issuer of a Home Equity Loan Security to collect all or part of the principal of or interest on the underlying loans, may entitle a borrower to a refund of amounts previously paid and, in addition, could subject the owner of a mortgage loan to damages and administrative enforcement.

The mortgage loans are also subject to federal laws, including:

- (1) the Federal Truth in Lending Act and Regulation Z promulgated under the Truth in Lending Act, which require particular disclosures to the borrowers regarding the terms of the loans;
- (2) the Equal Credit Opportunity Act and Regulation B promulgated under the Equal Credit Opportunity Act, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;
- (3) the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation; and
- (4) the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience.

Violations of particular provisions of these Federal laws may limit the ability of the issuer of a Home Equity Loan Security to collect all or part of the principal of or interest on the loans and in addition could subject such issuer to damages and administrative enforcement. In this event, the Issuer, as a holder of the Home Equity Loan Security, may suffer a loss.

Some of the mortgages loans backing a Home Equity Loan Security may have been underwritten with, and finance the cost of, credit insurance. From time to time, originators of mortgage loans that finance the cost of credit insurance have been named in legal actions brought by Federal and state regulatory authorities alleging that certain practices employed relating to the sale of credit insurance constitute violations of law. If such an action were brought against such issuer with respect to mortgage loans backing such Home Equity Loan Security and were successful, it is possible that the borrower could be entitled to refunds of amounts previously paid or that such issuer could be subject to damages and administrative enforcement.

In addition, numerous Federal and state statutory provisions, including the Federal bankruptcy laws, the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, and state debtor relief laws, may also adversely affect the ability of an issuer of a Home Equity Loan Security to collect the principal of or interest on the loans, and holders of the affected Home Equity Loan Securities may suffer a loss if the applicable laws result in these loans becoming uncollectible.

Illiquidity of Collateral Debt Securities. Some of the Collateral Debt Securities purchased by the Issuer will have no, or only a limited, trading market. The Issuer's investment in illiquid Collateral Debt Securities may restrict its ability to dispose of investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities, although the Issuer is generally prohibited by the Indenture from selling Collateral Debt Securities except under certain limited circumstances described under "Security for the Notes—Dispositions of Collateral Debt Securities". Illiquid Collateral Debt Securities may trade at a discount from comparable, more liquid investments. In addition, the Issuer may invest in privately placed Collateral Debt Securities that may or may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale, and even if such privately placed Collateral Debt Securities are transferable, the prices realized from their sale could be less than those originally paid by the Issuer or less than what may be considered the fair value of such securities. A substantial portion of the Collateral Debt Securities will have interest rates that remain constant to maturity. Accordingly, their market value will generally fluctuate with changes in market rates of interest. Such market value will also generally fluctuate with, among other things, general economic conditions, world political events, developments or trends in a particular industry related to the underlying obligations, the conditions of the financial markets and the financial condition of the issuers, credit enhancers or underlying obligors with respect to the Collateral Debt Securities. There can be no assurance that the proceeds of any sale by the Trustee of the Collateral Debt Securities and other Collateral securing the Notes, including following an Event of Default, will be sufficient to pay in full the principal of and interest on the Notes, any amounts payable to the Hedge Counterparty, the Trustee and other parties (and distributions to holders of the Preference Shares may accordingly be reduced). Pursuant to the Indenture, certain conditions must be satisfied before the Trustee is permitted to sell the Collateral Debt Securities and other Collateral pledged as security for the Notes following an Event of Default.

Reinvestment Risk: Subject to the limits described under "Description of the Securities—Substitution Period", Principal Proceeds resulting from the sale of Collateral Debt

Securities other than Specified Principal Proceeds may be reinvested in substitute Collateral Debt Securities. The impact, including any adverse impact, of such sale or potential reinvestment on the Holders of the Securities would be magnified with respect to the Preference Shares by the leveraged nature of the Preference Shares and with respect to the respective Classes of Notes by the leveraged nature of such respective Classes of Notes. See "Description of the Notes—Substitution Period."

The earnings with respect to such substitute Collateral Debt Securities will depend, among other factors, on reinvestment rates available in the marketplace at the time and on the availability of investments satisfying the Reinvestment Criteria and acceptable to the Collateral Manager. The need to satisfy such Reinvestment Criteria and identify acceptable investments may require the purchase of substitute Collateral Debt Securities having lower yields than those initially acquired or require that Principal Proceeds be maintained temporarily in cash or Eligible Investments, which may reduce the yield on the Collateral. Further, issuers of Collateral Debt Securities may be more likely to exercise any rights they may have to redeem such obligations when interest rates or spreads are declining. Any decrease in the yield on the Collateral Debt Securities will have the effect of reducing the amounts available to make payments of principal and interest on the Notes and distributions on the Preference Shares.

Rating Confirmation Failure; Mandatory Redemption. The Indenture requires that, no later than 10 days after the Ramp-Up Completion Date, the Co-Issuers notify each of the Rating Agencies and the Hedge Counterparty of the occurrence of the Ramp-Up Completion Date and request in writing that each of the Rating Agencies confirm in writing (a "Rating Confirmation") that it has not reduced or withdrawn the ratings (including any shadow, private and confidential ratings) assigned by it on the Closing Date to the Notes. In the event that the Issuer fails to obtain a Rating Confirmation prior to the first Determination Date following the Ramp-Up Completion Date (a "Rating Confirmation Failure"), Uninvested Proceeds, Principal Proceeds and Interest Proceeds will be applied on the first Distribution Date following the Ramp-Up Completion Date in accordance with the Priority of Payments to the extent necessary for each of the Rating Agencies to provide a Rating Confirmation (and, pending such application on such Distribution Date, each subsequent purchase of any Collateral Debt Security will be subject to the satisfaction of the Rating Condition). See "Description of the Notes—Mandatory Redemption" and "—Priority of Payments". The notional amount of the Hedge Agreement will be reduced in connection with a redemption of Notes on any Distribution Date by reason of any Rating Confirmation Failure by an amount proportionately equal to the principal amount of Notes so redeemed.

Credit Ratings. Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value, therefore, they may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of the Collateral Debt Securities will be used by the Collateral Manager only as a preliminary indicator of investment quality. Investments in non-investment grade and comparable unrated obligations will be more dependent on the Collateral Manager's credit analysis than would be the case with investments in investment-grade debt obligations.

Whenever this Offering Circular includes a condition in relation to a specified rating of any issuer, obligation or security (except for the purposes of the definition of "Rating"), if such

issuer, obligation or security has been put on a watch list for possible downgrade by Moody's by one or more rating subcategories, then such issuer, obligation or security will be deemed to have been downgraded by the relevant number of rating subcategories specified in such watch list (and, if not so specified, by one rating subcategory).

International Investing. A limited portion of the Collateral Debt Securities may consist of obligations of an issuer organized or incorporated under the laws of a Special Purpose Vehicle Jurisdiction or obligations of a Qualifying Foreign Obligor. Moreover, subject to compliance with certain of the Reinvestment Criteria described herein, collateral securing Asset-Backed Securities may consist of obligations of issuers or borrowers organized under the laws of various jurisdictions other than the United States. Investing outside the United States may involve greater risks than investing in the United States. These risks may include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; (iii) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws therein; (iv) risk of economic dislocations in such other country and (v) less data on historic default and recovery rates for the Collateral Debt Securities. Moreover, many foreign companies are not subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies.

There is generally less governmental supervision and regulation of exchanges, brokers, investors and issuers in foreign countries than there is in the United States. For example, there may be no comparable provisions under certain foreign laws with respect to insider trading and similar investor protection securities laws that apply with respect to securities transactions consummated in the United States.

Foreign markets also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of the Issuer are uninvested and no return is earned thereon. The inability of the Issuer to make intended Collateral Debt Security purchases due to settlement problems or the risk of intermediary counterparty failures could cause the Issuer to miss investment opportunities. The inability to dispose of a Collateral Debt Security due to settlement problems could result either in losses to the Issuer due to subsequent declines in the value of such Collateral Debt Security or, if the Issuer has entered into a contract to sell the security, could result in possible liability to the purchaser. Transaction costs of buying and selling foreign securities, including brokerage, tax and custody costs, also are generally higher than those involved in domestic transactions. Furthermore, foreign financial markets have, for the most part, substantially less volume than U.S. markets, and securities of many foreign companies are less liquid and their prices more volatile than securities of comparable domestic companies.

In many foreign countries there is the possibility of expropriation, nationalization or confiscatory taxation, limitations on the convertibility of currency or the removal of securities, property or other assets of the Issuer, political, economic or social instability or adverse diplomatic developments, each of which could have an adverse effect on the Issuer's investments in such foreign countries. The economies of individual non-U.S. countries may also differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resource self-sufficiency and balance of payments position.

Insolvency Considerations with Respect to Issuers of Collateral Debt Securities. Various laws enacted for the protection of creditors may apply to obligors under Collateral Debt Securities. The information in this and the following paragraph is applicable with respect to U.S. obligors. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an obligor under a Collateral Debt Security (such as a trustee in bankruptcy), were to find that the obligor did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the Collateral Debt Security and, after giving effect to such indebtedness, the obligor (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such obligor constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing and future creditors of the obligor or to recover amounts previously paid by the obligor in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an obligor would be considered insolvent at a particular time if the sum of its debts were then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the obligor was "insolvent" after giving effect to the incurrence of the indebtedness constituting the Collateral Debt Security or that, regardless of the method of valuation, a court would not determine that the obligor was "insolvent" upon giving effect to such incurrence. In addition, in the event of the insolvency of an obligor of a Collateral Debt Security, payments made on such Collateral Debt Security could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before insolvency.

In general, if payments on a Collateral Debt Security are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the Issuer) or from subsequent transferees of such payments (such as the holders of the Offered Securities). To the extent that any such payments are recaptured from the Issuer, the resulting loss will be borne in the first instance by the Preference Shareholders, then by the holders of the Class C Notes, then by the holders of the Class B Notes, then by the holders of the Class A-2 Notes, and then by the holders of the Class A-1 Notes. However, a court in a bankruptcy or insolvency proceeding would be able to direct the recapture of any such payment from a holder of Offered Securities only to the extent that such court has jurisdiction over such holder or its assets. Moreover, it is likely that avoidable payments could not be recaptured directly from a holder that has given value in exchange for its Offered Securities, in good faith and without knowledge that the payments were avoidable. Nevertheless, since there is no judicial precedent relating to a structured transaction such as the Offered Securities, there can be no assurance that a holder of Offered Securities will be able to avoid recapture on this or any other basis.

The Collateral Debt Securities of obligors not domiciled in the United States will be subject to laws enacted in their home countries for the protection of creditors, which may differ from the U.S. laws described above and be less favorable to creditors than such U.S. laws.

Certain Conflicts of Interest. The activities of the Collateral Manager, the Initial Purchaser and their respective affiliates may result in certain conflicts of interest.

Conflicts of Interest Involving the Collateral Manager. Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager

and its Affiliates. The Collateral Manager and its Affiliates may invest for the account of others in debt obligations that would be appropriate as security for the Notes and have no duty in making such investments to act in a way that is favorable to the Issuer or the holders of the Notes (the "Noteholders") or the Preference Shareholders. Such investments may be different from those made on behalf of the Issuer. The Collateral Manager and its Affiliates may have economic interests in or other relationships with issuers in whose obligations or securities the Issuer may invest. In particular, such persons may make or hold an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made or held by the Issuer or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and otherwise create conflicts of interest for the Issuer. In such instances, the Collateral Manager and its Affiliates may in their discretion make investment recommendations and decisions that may be the same as or different from those made with respect to the Issuer's investments.

Although the officers and employees of the Collateral Manager will devote as much time to the Issuer as the Collateral Manager deems appropriate, the officers and employees may have conflicts in allocating their time and services among the Issuer and the Collateral Manager's and its Affiliates' other accounts. In addition, the Collateral Manager and its Affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Collateral Manager from purchasing securities or selling securities for itself or its clients (including the Issuer) or otherwise using such information for the benefit of its clients or itself.

The Collateral Manager currently serves as the collateral manager for five companies organized to invest primarily in Asset-Backed Securities, and the Collateral Manager or its Affiliates may in the future serve as collateral manager of other such companies. The Collateral Manager or any of its Affiliates may from time to time simultaneously or at different times seek to purchase or sell investments for the Issuer and any similar entity for which it serves as collateral manager, or for its clients or Affiliates. It is the Collateral Manager's policy to allocate investment opportunities to the extent practicable to each account, including the Issuer, over time in a manner which the Collateral Manager believes fair and equitable to each such account (taking into account constraints imposed by the Indenture). Nevertheless, under some circumstances, such allocation may adversely affect the Issuer with respect to the price or size of the investments obtainable or saleable. In addition, see "Security for the Notes—Reinvestment Criteria".

In addition, the Collateral Manager, its Affiliates and client accounts for which the Collateral Manager or its Affiliates act as investment adviser may at times own Notes of one or more Classes or Preference Shares or both. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Offered Securities held by any of such Collateral Manager, its Affiliates and accounts for which such Collateral Manager or any Affiliate thereof acts as investment adviser (and for which such Collateral Manager or such Affiliate has discretionary authority) with respect to any assignment or termination of, any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any rights to remove the Collateral Manager or terminate the Collateral Management Agreement or approve or object to a Replacement Officer), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote

Offered Securities held by them and by such accounts with respect to all other matters. For purposes hereof, "Affiliate" means, with respect to the Collateral Manager, (i) any other person who, directly or indirectly, is in control of, or controlled by, or is under common control with, the Collateral Manager or (ii) any other person who is a director, member, officer, employee or general partner of (a) the Collateral Manager or (b) any such other person described in clause (i) above. For the purposes of the foregoing definition, control of a person shall mean the power, direct or indirect, (x) to vote more than 50% of the securities having ordinary voting power for the election of directors of such person or (y) to direct or cause the direction of the management and policies of such person whether by contract or otherwise. The right of the Collateral Manager to receive fees payable under the Collateral Management Agreement and any ownership by the Collateral Manager or any of its Affiliates of Offered Securities may give the Collateral Manager an incentive to take actions that vary from the interests of the Noteholders and the Preference Shareholders, including to approve and cause the Issuer to make more speculative investments in Collateral Debt Securities than it would otherwise make in the absence of such investment.

Conflicts of Interest Involving the Initial Purchaser. Certain of the Collateral Debt Securities acquired by the Issuer may consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, affiliated with the Initial Purchaser or for which the Initial Purchaser or an affiliate of the Initial Purchaser has acted as underwriter, agent, initial purchaser, placement agent or dealer or for which the Initial Purchaser or an affiliate of the Initial Purchaser has acted as lender or provided other commercial or investment banking services. The Initial Purchaser or one or more of its affiliates may also act as counterparty with respect to one or more Synthetic Securities and may enter into one or more hedging transactions for the benefit of one or more Original Purchasers.

Purchase of Collateral Debt Securities. The Collateral Debt Securities purchased by the Issuer on the Closing Date will be purchased from a portfolio of Collateral Debt Securities held by Merrill Lynch International or one or more of its affiliates pursuant to a warehousing agreement between Merrill Lynch International, an affiliate of MLPFS, and the Collateral Manager (the "Warehousing Agreement"). The Collateral Manager serves as an investment adviser pursuant to the Warehousing Agreement. Some of the Collateral Debt Securities subject to the Warehousing Agreement may have been originally acquired by MLPFS or an affiliate of MLPFS in connection with its underwriting or placement thereof. The Issuer will purchase Collateral Debt Securities from the Initial Purchaser or any affiliate thereof only to the extent the Collateral Manager determines that such purchases are consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law. In any event, all purchases of such Collateral Debt Securities from any third party (including the Collateral Manager and its clients and Affiliates and the Initial Purchaser or any of its affiliates) will be (a) at fair market value (determined at the time such Collateral Debt Security is originally acquired pursuant to the Warehousing Agreement) and otherwise on an "arm's-length basis" and (b) consistent with investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law.

If the Initial Purchaser or any of its affiliates was to become the subject of a case or proceeding under the United States Bankruptcy Code, another applicable insolvency law or a stockbroker liquidation under the Securities Investor Protection Act of 1970, the trustee in bankruptcy, other liquidator or the Securities Investor Protection Corporation could assert that Collateral Debt Securities acquired from the Initial Purchaser or any of its affiliates are property of the insolvency estate of the Initial Purchaser or such affiliate. Property that the Initial Purchaser or any of its affiliates has pledged or assigned, or in which the Initial Purchaser or

any of its affiliates has granted a security interest, as collateral security for the payment or performance of an obligation, would be property of the estate of the Initial Purchaser or such affiliate. Property that the Initial Purchaser or any of its affiliates has sold or absolutely assigned and transferred to another party, however, is not property of the estate of the Initial Purchaser or such affiliate. The Issuer does not expect that the purchase by the Issuer of Collateral Debt Securities, under the circumstances contemplated by this Offering Circular, will be deemed to be a pledge or collateral assignment (as opposed to the sale or other absolute transfer of such Collateral Debt Securities to the Issuer).

Relation to Prior Investment Results. The prior investment results of the Collateral Manager and the persons associated with the Collateral Manager or any other entity or person described herein are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.

Projections, Forecasts and Estimates. Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Co-Issuers consider reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, the timing of acquisitions of Collateral Debt Securities, differences in the actual allocation of the Collateral Debt Securities among asset categories from those assumed, the timing of acquisitions of the Collateral Debt Securities, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Collateral Debt Securities (particularly during ramp up), defaults under Collateral Debt Securities and the effectiveness of the Hedge Agreement, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchaser or any of their respective affiliates or any other person or entity of the results that will actually be achieved by the Issuer.

None of the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchaser, any of their respective affiliates and any other person has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

Money Laundering Prevention. "The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001" (the "USA PATRIOT Act"), effective as of October 26, 2001, requires broker-dealers registered with the Securities and Exchange Commission and the National Association of Securities Dealers (the "NASD") to establish and maintain anti-money laundering programs. With respect to the content of those programs, the NASD has enacted a rule that requires broker-dealers to establish and maintain anti-money laundering programs similar to those currently in place at U.S. banks. On September 18, 2002, the Treasury Department published proposed regulations that will, if enacted in their current form, force all "unregistered investment companies" to

(a) establish and maintain an anti-money laundering compliance program, (b) periodically "test" the required compliance program, (c) designate and train responsible personnel and (d) file a written notice with the Treasury Department within 90 days of the effective date of the regulations that identifies certain information regarding the subject company, including the dollar amount of assets under company management and the number of interest holders in the subject company. As the proposed rule is currently drafted, an "unregistered investment company" includes any issuer that (i) would be an investment company but for the exclusion from registration provided for by Section 3(c)(7) of the Investment Company Act, (ii) permits an owner to redeem his or her ownership interest within two years of the purchase of that interest, (iii) has total assets over U.S.\$1,000,000 and (iv) is organized in the United States or is "organized, operated, or sponsored" by a U.S. Person. Pending further clarification by the Treasury Department, the Issuer is taking the view that it falls under the ambit of the proposed rule and will take all steps required to comply with it. It is possible that other legislation or regulation could be promulgated which will require the Collateral Manager or other service providers to the Co-Issuers to share information with governmental authorities with respect to investors in the Offered Securities in connection with the establishment of anti-money laundering procedures or require the Issuer to implement additional restrictions on the transfer of the Offered Securities.

Investment Company Act. The Co-Issuers have not registered with the United States Securities and Exchange Commission (the "SEC") as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States or any state thereof (a) whose investors resident in the United States are solely "qualified purchasers" or "knowledgeable employees" (within the meaning given to such terms in the Investment Company Act and the regulations of the SEC thereunder) or certain transferees thereof identified in Rule 3c-6 under the Investment Company Act and (b) which do not make a public offering of their securities in the United States. Counsel for the Co-Issuers will opine, in connection with the issuance of the Offered Securities, that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, that the Notes and Preference Shares are sold in accordance with the terms of the Indenture, the Preference Share Paying Agency Agreement, the Issuer Charter and the Securities Purchase Agreement). No opinion or no-action position has been requested of the SEC.

To rely on Section 3(c)(7), the Issuer must have a "reasonable belief" that all purchasers of the Offered Securities that are U.S. Persons (including the Initial Purchaser and subsequent transferees) are Qualified Purchasers. Because transfers of beneficial interests in the Notes will generally be effected only through DTC and its participants and indirect participants without delivery of written transferee certifications to the Issuer, the Issuer will establish the existence of such a reasonable belief by means of the deemed representations, warranties and agreements described under "Transfer Restrictions", the agreements of the Initial Purchaser referred to under "Plan of Distribution" and by taking the other actions consistent with procedures published by The Bond Market Association. Although the SEC has stated that it is possible for an issuer of securities to satisfy the reasonable belief standard referred to above by establishing procedures to provide a means by which such issuer can make a reasonable determination as to status of its securityholders as Qualified Purchasers, the SEC has not approved—and has stated that it will not approve—any particular set of procedures including the Section 3(c)(7) procedures published by The Bond Market Association. Accordingly, there can be no assurance that the Offered Securities will have satisfied the reasonable belief standard referred to above.

If the SEC or a court of competent jurisdiction were to find that the Issuer or the Co-Issuer is required, but in violation of the Investment Company Act had failed, to register as an investment company, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation, (ii) investors in the Issuer or the Co-Issuer could sue the Issuer or the Co-Issuer, as the case may be, and recover any damages caused by the violation; and (iii) any contract to which the Issuer or the Co-Issuer, as the case may be, is a party that is made in, or whose performance involves a, violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than nonenforcement and would not be inconsistent with the purposes of the Investment Company Act. Should the Issuer or the Co-Issuer be subjected to any or all of the foregoing, the Issuer or the Co-Issuer, as the case may be, would be materially and adversely affected.

Each transferee of a beneficial interest in a Restricted Global Note will be deemed to represent at the time of purchase that: (i) the purchaser is both a Qualified Institutional Buyer and a Qualified Purchaser; (ii) the purchaser is not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless such purchaser owns and invests on a discretionary basis at least U.S.\$25,000,000 in securities of issuers that are not affiliated persons of the dealer; (iii) the purchaser is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan; and (iv) the purchaser will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner of a Restricted Note (or any interest therein) (A) is a U.S. Person (within the meaning of Regulation S under the Securities Act) and (B) is not both a Qualified Institutional Buyer and also a Qualified Purchaser, then either of the Co-Issuers may require, by notice to such holder, that such holder sell all of its right, title and interest to such Restricted Note (or any interest therein) to a person that is both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (a) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by the Trustee in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market) to a person that certifies to the Trustee, the Co-Issuers and the Collateral Manager, in connection with such transfer, that such person is both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser and (b) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

The Issuer Charter provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner of a Preference Share (or any interest therein) (A) is a U.S. Person (within the meaning of Regulation S under the Securities Act) and (B) is not both a Qualified Institutional Buyer or an Institutional Accredited Investor (or an Accredited Investor that purchased such Preference Share or any interest therein directly from the Initial Purchaser) and also a Qualified Purchaser, then the Issuer may require, by notice to such holder, that such holder sell all of its right, title and interest to such Preference Share (or any interest therein) to a person that is both (i) a Qualified Institutional Buyer and a Qualified

Purchaser with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (a) upon direction from the Collateral Manager or the Issuer, the Preference Share Paying Agent, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale (conducted by the Preference Share Paying Agent in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market) to a person that certifies to the Preference Share Paying Agent, the Issuer and the Collateral Manager, in connection with such transfer, that such person is both (i) a Qualified Institutional Buyer or an Institutional Accredited Investor and a Qualified Purchaser and (b) pending such transfer, no further payments will be made in respect of such Preference Share held by such beneficial owner.

Mandatory Repayment of the Notes. If any Coverage Test applicable to a Class of Notes is not met, Interest Proceeds and, after application of Interest Proceeds, Principal Proceeds, will be used, to the extent that funds are available in accordance with the Priority of Payments and to the extent necessary to restore the relevant Coverage Test(s) to certain minimum required levels, to repay principal of one or more Classes of Notes. See "Description of the Notes—Mandatory Redemption". In addition, if the Issuer is unable to obtain a Rating Confirmation from each the Rating Agencies by the Determination Date following the Ramp-Up Completion Date, funds that would otherwise be distributed to Preference Shareholders (subject to the payment of certain other amounts prior thereto) will be used to redeem the Notes, to the extent necessary (after the application of Principal Proceeds for such purpose) to obtain a Rating Confirmation from each of the Rating Agencies. Any of these events could result in an elimination, deferral or reduction in the interest payments or principal repayments made to the Noteholders and distributions to the Preference Shareholders, which could adversely impact the returns of the Noteholders and the Preference Shareholders. See "Description of the Notes—Principal" and "—Priority of Payments".

The foregoing could result in an elimination, deferral or reduction in the payments in respect of interest or the principal repayments made to the holders of one or more Classes of Notes that are Subordinate to any other outstanding Class of Notes and distributions to the Preference Shareholders, which could adversely impact the returns of such holders and Preference Shareholders.

In addition, if the Preference Shareholders have received distributions on the Preference Shares sufficient to achieve a Dividend Yield equal to 15.05% as of such Distribution Date, any remaining Interest Proceeds on such Distribution Date will be applied to pay principal of the Class C Notes until the Class C Notes are paid in full. After the principal of the Class C Notes has been paid in full, Interest Proceeds shall be paid to the Preference Share Paying Agent for payment to the Preference Shareholders as a distribution of Interest Proceeds by way of dividend or distributions thereon in accordance with the Preference Share Documents. See "Description of the Notes—Principal," "—Mandatory Redemption" and "—Priority of Payments—Interest Proceeds".

Auction Call Redemption. If the Notes have not been redeemed in full prior to the Distribution Date occurring in March 2012, an auction for the sale of all (and not less than all) of the Collateral Debt Securities will be conducted and, *provided* certain conditions described herein are satisfied, the Collateral Debt Securities will be sold and the Notes will be redeemed on such Distribution Date. Any Auction Call Redemption will be subject to the requirement that holders of the Preference Shares shall have received (after giving effect to the distribution in

accordance with the Priority of Payments of proceeds of the sale at auction of the Collateral Debt Securities) distributions thereon necessary (a) in the case of an Auction Call Redemption on any Distribution Date occurring in or after March 2012 to but prior to March 2014, to achieve an annualized IRR equal to 15.05% or (b) in the case of an Auction Call Redemption on a Distribution Date in or after March 2014, to distribute an amount at least equal to the Preference Share Stated Balance at such time plus all unpaid Preference Share Stated Coupon accrued to such time. If such conditions are not satisfied, then the auction of the Collateral Debt Securities will not be completed, the redemption will not occur and the Trustee will continue to conduct such auctions on a quarterly basis until the Notes are redeemed in full. See "Description of the Notes—Redemption Price" and "—Auction Call Redemption". The Hedge Agreement will terminate upon any Auction Call Redemption.

Optional Redemption. Subject to satisfaction of certain conditions, a Majority-in-Interest of Preference Shareholders may require that the Notes be redeemed in whole and not in part as described under "Description of the Notes—Optional Redemption and Tax Redemption". No Optional Redemption may occur prior to the end of the Substitution Period (which is the period from (and including) the Closing Date to (but excluding) the earliest of (a) the Distribution Date occurring in March, 2007, (b) the Distribution Date on which the Collateral Manager specifies (by notice to the Trustee) that no further investments in substitute Collateral Debt Securities will occur and (c) the date of termination of such period pursuant to the Indenture by reason of an Event of Default. Any amounts applied to the redemption of the Notes shall be applied in order of seniority to the Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes, respectively, in each case, *pro rata* in accordance with the aggregate outstanding amounts of such Class of Notes on the date of such redemption. Because such redemption of the Notes will eliminate the payment of dividends to Preference Shareholders, the Preference Shareholders will have a strong incentive to require that the Notes be redeemed. See "Description of the Notes—Optional Redemption and Tax Redemption". The Hedge Agreement will terminate upon any Optional Redemption.

Tax Redemption. Subject to satisfaction of certain conditions, upon the occurrence of a Tax Event, the Issuer may redeem the Notes, in whole but not in part, on a Distribution Date and only from (a) Sale Proceeds of the Collateral and (b) all other funds in the Interest Collection Account, the Principal Collection Account, the Uninvested Proceeds Account, the Expense Account, the Interest Equalization Account, the Interest Reserve Account and the Payment Account on such Distribution Date, at the direction of holders of a majority in aggregate outstanding principal amount of any Affected Class of Notes, at the applicable Redemption Price. No Tax Redemption may be effected, however, unless (i) all Sale Proceeds under clause (a) above are used to make such Tax Redemption, (ii) funds under clauses (a) and (b) are sufficient to redeem all of the Notes simultaneously and to pay certain other amounts in accordance with the procedures set forth in the Indenture, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied. See "Description of the Notes—Optional Redemption and Tax Redemption". The Hedge Agreement will terminate upon any Tax Redemption.

Interest Rate Risk. The Notes bear interest at a rate based on LIBOR as determined on the relevant LIBOR Determination Date. A portion of the Collateral Debt Securities will consist of obligations that bear interest at fixed rates. Accordingly, the Notes are subject to interest rate risk to the extent that there is an interest rate mismatch between the floating rate at which interest accrues on the Notes and the fixed rate at which interest accrues on the Collateral Debt Securities. In addition, any payments of principal of or interest on Collateral Debt Securities received during a Due Period will be reinvested in Eligible Investments maturing not later than

the Business Day immediately preceding the next Distribution Date. There is no requirement that Eligible Investments bear interest at LIBOR, and the interest rates available for Eligible Investments are inherently uncertain. As a result of these mismatches, an increase in LIBOR could adversely impact the ability of the Issuer to make payments on the Notes (including by reason of a decline in the value of previously issued fixed rate Collateral Debt Securities as LIBOR increases). With a view to mitigating a portion of such interest rate mismatch, the Issuer will on the Closing Date enter into the Hedge Agreement. However, there can be no assurance that the Collateral Debt Securities and Eligible Investments, together with the Hedge Agreement, will in all circumstances generate sufficient Interest Proceeds to make timely payments of interest on the Notes. Moreover, the benefits of the Hedge Agreement may not be achieved in the event of the early termination of the Hedge Agreement, including termination upon the failure of the Hedge Counterparty to perform its obligations thereunder. See "Security for the Notes—The Hedge Agreement".

Subject to satisfaction of the Rating Condition with respect to such reduction, the Collateral Manager may on any Distribution Date direct the Issuer to reduce the notional amount of any interest rate swap or cap outstanding under the Hedge Agreement. In addition, after the Substitution Period, the notional amount of one or more Hedge Agreements may be adjusted if the aggregate principal amount of the Notes covered by such Hedge Agreements changes because of redemption or other principal payments made on such Notes. In the event of any such reduction, the Hedge Counterparty or the Issuer may be required to make a termination payment in respect of such reduction to the other party. See "Security for the Notes—The Hedge Agreement".

Average Life of the Notes and Prepayment Considerations. The average life of each Class of Notes is expected to be shorter than the number of years until the Stated Maturity of the Notes. See "Maturity, Prepayment and Yield Considerations".

The average life of each Class of Notes will be affected by the financial condition of the obligors on or issuers of the Collateral Debt Securities and the characteristics of the Collateral Debt Securities, including the existence and frequency of exercise of any prepayment, optional redemption or sinking fund features, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries on any Defaulted Securities, the frequency of tender or exchange offers for the Collateral Debt Securities and any sales of Collateral Debt Securities and any dividends or other distributions received in respect of Equity Securities, as well as the risks unique to investments in obligations of foreign issuers described above. During the Substitution Period, Specified Principal Proceeds received by the Issuer will be used to pay principal of the Notes in accordance with the Priority of Payments. Accordingly, the average life of the Notes may be affected by the rate of principal payments on the underlying Collateral Debt Securities and, during the Substitution Period, by the receipt by the Issuer of Specified Principal Proceeds resulting from the sale of Defaulted Securities or Written-Down Securities. See "Maturity, Prepayment and Yield Considerations" and "Security for the Notes".

Distributions on the Preference Shares; Investment Term; Non-Petition Agreement. Prior to the payment in full of the Notes and all other amounts owing under the Indenture, Preference Shareholders will be entitled to receive distributions only to the extent permissible under the Indenture and Cayman Islands law (as described herein). The timing and amount of distributions payable to Preference Shareholders and the duration of the Preference Shareholders' investment in the Issuer therefore will be affected by the average life of the Notes. See "—Average Life of the Notes and Prepayment Considerations" above. Each Preference

Shareholder will be prohibited, pursuant to the terms of the Issuer Charter, to cause the filing of a petition in bankruptcy against the Issuer before one year and one day have elapsed since the payment in full of the Notes or, if longer, the applicable preference period then in effect. If such provision failed to be effective to preclude the filing of a petition under applicable bankruptcy laws, then the filing of such a petition could result in one or more payments on the Notes made during the period prior to such filing being deemed to be preferential transfers subject to avoidance by the bankruptcy trustee or similar official exercising authority with respect to the Issuer's bankruptcy estate.

Dependence on Key Personnel. Because the composition of the Collateral Debt Securities will vary over time, the performance of the Collateral Debt Securities depends on the investment strategy and investment process of the Collateral Manager in analyzing, selecting and managing the Collateral Debt Securities. As a result, the Issuer will be highly dependent on the financial and managerial experience of certain individuals associated with the Collateral Manager. The loss of one or more of these individuals could have a material adverse effect on the performance of the Issuer. Moreover, the Collateral Management Agreement may be terminated under certain circumstances. Although the Collateral Manager will commit a significant amount of its efforts to the management of the Collateral Debt Securities, it plans to manage other investment products and vehicles and is not required (and will not be able) to devote all of its time to the management of the Collateral Debt Securities. See "The Collateral Management Agreement" and "The Collateral Manager".

Treatment as a "Variable Interest Entity". On January 17, 2003, the United States Financial Accounting Standards Board issued its Interpretation No. 46, *Consolidation of Variable Interest Entities*. This interpretation is intended to improve the public understanding and governance of "special purpose entities". At issue under this interpretation is when a participant in a financial transaction with a special purpose entity should include the assets, liabilities, revenues, and expenses of such special purpose entity in its own consolidated financial statements as opposed to accounting for just its investment in or contracts with such special purpose entity. This interpretation governs the consolidation of so-called "variable interest entities" by reason of factors other than ownership of a majority of the voting stock of a company. The Co-Issuers are likely to be treated as "variable interest entities" under this interpretation.

No Gross Up. The Issuer expects that payments of principal and interest on the Notes generally will not be subject to any withholding tax in the Cayman Islands, the United States or any other jurisdiction. See "Income Tax Considerations". If any withholding or deduction is required, the Co-Issuers will not be obligated to make any additional payments to the holders of any Notes in respect of such withholding or deduction.

All distributions of dividends and return of capital on the Preference Shares will be made without any deduction or withholding for or on account of any tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental authority, then in effect. If the Issuer is so required to deduct or withhold, then the Issuer will instruct the Preference Share Paying Agent to make such deduction or withholding and to pay any such withholding taxes, but it will not be obligated to pay any additional amounts in respect of such withholding or deduction.

Taxes on the Issuer. The Issuer expects that payments received on the Collateral Debt Securities, Eligible Investments, U.S. Agency Securities and the Hedge Agreement generally will not be subject to withholding taxes imposed by the United States or reduced by withholding taxes imposed by other countries from which such payments are sourced. Those payments,

however, might become subject to U.S. or other withholding tax due to a change in law or other causes. Payments with respect to any Equity Securities likely will be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. The imposition of unanticipated withholding taxes or tax on the Issuer's net income could materially impair the Issuer's ability to pay principal of and interest on the Notes and dividends and return of capital in respect of the Preference Shares.

Tax Treatment of Holders of Preference Shares and Class C Notes. Because the Issuer will be a passive foreign investment company, a U.S. person holding Preference Shares may be subject to additional taxes unless it elects to treat the Issuer as a qualified electing fund and to recognize currently its proportionate share of the Issuer's income. The Issuer also may be a controlled foreign corporation or a foreign personal holding company, in which case U.S. persons holding Preference Shares could be subjected to different tax treatments. See "Income Tax Considerations".

The Issuer intends to treat the Class C Notes, and the Indenture requires that holders agree to treat the Class C Notes, as debt for U.S. Federal income tax purposes. The U.S. Internal Revenue Service may challenge the treatment of the Class C Notes as debt of the Issuer. If such a challenge were successful, the Class C Notes would be treated as equity interests in the Issuer, and the U.S. Federal income tax consequences of investing in the Class C Notes would be the same as those of having invested in the Preference Shares without making an election to treat the Issuer as a qualified electing fund. See "Income Tax Considerations".

ERISA Considerations. The Issuer intends to restrict ownership of the Preference Shares so that no assets of the Issuer will be deemed to be "plan assets" subject to ERISA and/or Section 4975 of the Code as such term is defined in the Plan Asset Regulation issued by the United States Department of Labor. The Issuer intends to restrict the acquisition of Preference Shares by Benefit Plan Investors (which is defined in the Plan Asset Regulation to include all employee benefit plans, whether or not the plans are subject to Title I of ERISA, plans within the meaning of Section 4975 of the Code and entities whose underlying assets are deemed to include plan assets) on the Closing Date to less than 25% of all Preference Shares (excluding Preference Shares held by Controlling Persons (as defined herein)). The Issuer intends to restrict transfers of the Preference Shares so that after the Closing Date, no Preference Shares will be transferred to Benefit Plan Investors or Controlling Persons. In particular, each owner of a Preference Share will be required to execute and deliver to the Issuer and the Preference Share Paying Agent a letter in the form attached as an exhibit to the Preference Share Paying Agency Agreement to the effect that such owner will not transfer such interest except in compliance with the transfer restrictions set forth in the Preference Share Paying Agency Agreement, in each case, including the requirement that any subsequent transferee execute and deliver such letter as a condition to any subsequent transfer. Although each such owner will be required to indemnify the Issuer for the consequences of any breach of such obligations, there is no assurance that an owner will not breach such obligations or that, if such breach occurs, such owner will have the financial capacity and willingness to indemnify the Issuer for any losses that the Issuer may suffer.

If the assets of either of the Co-Issuers were deemed to be "plan assets", certain transactions that the Issuer might enter into, or may have entered into, in the ordinary course of business might constitute non-exempt prohibited transactions under ERISA and/or Section 4975 of the Code and might have to be rescinded. However, it is anticipated that such a result would be unlikely because (1) the Collateral Debt Securities acquired by the Issuer will be limited to

securities as to which the assets of the issuers thereof will not be treated as "plan assets", even if the underlying assets of the Issuer are so treated, and (2) the issuers of such securities will be special-purpose entities that are not likely to be Parties-In-Interest or disqualified persons with respect to any Plans.

With respect to the purchasers of Offered Securities on the Closing Date (each, an "Original Purchaser"), (a) each Original Purchaser of Notes and each transferee of a Note will be deemed to represent and (or, if required by the Indenture, a transferee will be required to certify) either that (i) it is not (and, for so long as it holds any Offered Security, will not be), and is not (and, for so long as it holds any Note or any interest therein, will not be) acting on behalf of, an employee benefit plan subject to Title I of ERISA, a plan subject to Section 4975 of the Code or a governmental or church plan subject to any Similar Law or (ii) its purchase and ownership of such Note will be covered by a prohibited transaction class exemption issued by the United States Department of Labor (or, in the case of a governmental or church plan, will not result in a violation of any Similar Law) and (b) each Original Purchaser will be required to certify whether or not it is a Benefit Plan Investor or a Controlling Person. Each such Original Purchaser that is a Benefit Plan Investor subject to Title I of ERISA, Section 4975 of the Code or any Similar Law will be required to certify that its investment in Preference Shares will not result in a non-exempt prohibited transaction under the foregoing provisions of ERISA and the Code or a violation of any Similar Law. No transferee of a Preference Share after the Closing Date may be a Benefit Plan Investor or a Controlling Person.

See "ERISA Considerations" herein for a more detailed discussion of certain ERISA and related considerations with respect to an investment in the Notes or the Preference Shares.

The Issuer The Issuer is a recently formed Cayman Islands entity and has no prior operating history other than in connection with the acquisition of certain Collateral Debt Securities prior to the issuance of the Offered Securities and the entering into of arrangements with respect thereto. The Issuer will have no significant assets other than the Collateral Debt Securities, Equity Securities, Eligible Investments and the Collection Accounts and its rights under the Hedge Agreement and certain other agreements entered into as described herein. The Issuer will not engage in any business activity other than the issuance and sale of the Offered Securities as described herein, the acquisition and disposition of, and investment and reinvestment in, Collateral Debt Securities and Eligible Investments as described herein, the entry into of, and the performance of its obligations under, the Indenture, the Hedge Agreement, the Basis Swap, the Collateral Management Agreement, the Collateral Administration Agreement, the Class A-2A Agency and Amending Agreement, the Administration Agreement, the Securities Purchase Agreement and the Preference Share Paying Agency Agreement, the pledge of the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties, ownership of the Co-Issuer, certain activities conducted in connection with the payment of amounts in respect of the Offered Securities, the management of the Collateral and other incidental activities. Income derived from the Collateral Debt Securities and other Collateral will be the Issuer's only source of cash.

The Co-Issuer The Co-Issuer is a newly formed Delaware corporation and has no prior operating history. The Co-Issuer does not have and will not have any substantial assets. The Co-Issuer will not engage in any business activity other than the co-issuance of the Notes and will not be an issuer of the Preference Shares.

DESCRIPTION OF THE NOTES

The Notes will be issued pursuant to the Indenture. The following summary describes certain provisions of the Notes and the Indenture. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture. Following the closing, copies of the Indenture may be obtained by prospective investors upon request to the Trustee at 600 Travis Street, 50th Floor, JPMorgan Chase Tower, Houston, Texas 77002 or, if and for so long as any Offered Securities are listed on the Irish Stock Exchange, to the Irish Paying Agent at NCB Stockbrokers Limited, 3 George's Dock, International Financial Services Centre, Dublin 1, Ireland.

Status and Security

The Notes will be limited-recourse debt obligations of the Co-Issuers. All of the Class A-1 Notes are entitled to receive payments *pari passu* among themselves, all of the Class A-2 Notes are entitled to receive payments *pari passu* among themselves, all of the Class B Notes are entitled to receive payments *pari passu* among themselves and all of the Class C Notes are entitled to receive payments *pari passu* among themselves. Except as otherwise described herein, the relative order of seniority of payment of each Class of Notes is as follows: *first*, Class A-1 Notes, *second*, Class A-2 Notes, *third*, Class B Notes and *fourth*, Class C Notes (a) each Class of Notes (other than the Class C Notes) in such list being "Senior" to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes (other than the Class A-1 Notes) in such list being "Subordinate" to each other Class of Notes that precedes such Class of Notes in such list. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that are Senior to such Class and that remain outstanding has been paid in full. See "Description of the Notes—Priority of Payments". No payment of principal of any Class of Notes will be made until all principal of, and all accrued and unpaid interest on, the Notes of each Class that are Senior to such Class and that remain outstanding have been paid in full, except (i) for the payment of Class C Deferred Interest from Interest Proceeds in certain circumstances and (ii) that, after the Preference Shareholders have received on any Distribution Date a dividend on the Preference Shares resulting in a Dividend Yield equal to 15.05% as of such Distribution Date, Interest Proceeds that would otherwise be distributed to the Preference Shareholders will be applied to pay principal of any outstanding Class C Notes until the Class C Notes are paid in full. See "Description of the Notes—Priority of Payments".

Under the terms of the Indenture, the Issuer will grant to the Trustee for the benefit of the Secured Parties a first priority security interest in the Collateral described herein to secure the Issuer's obligations under the Indenture and the Notes.

Payments of principal of and interest on the Notes will be made solely from the proceeds of the Collateral, in accordance with the priorities described under "—Priority of Payments" herein. If the amounts received in respect of the Collateral (net of certain expenses) are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Collateral, the obligations of the Co-Issuers to pay any such deficiency will be extinguished.

Interest

The Class A-1 Notes will bear interest at a floating rate per annum equal to LIBOR (determined as described herein) plus 0.40%. The Class A-2A Notes will bear interest, and

certain third parties will be entitled to compensation, at a floating rate per annum in the aggregate not to exceed LIBOR (determined as described herein) plus 1.19%. The Class A-2B Notes will bear interest at a floating rate per annum equal to LIBOR (determined as described herein) plus 0.85%. The Class B Notes will bear interest at a floating rate per annum equal to LIBOR plus 1.15%. The Class C Notes will bear interest at a floating rate per annum equal to LIBOR plus 3.10%. Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. Interest will accrue on the outstanding principal amount of each Class of Notes (determined as of the first day of each Interest Period and after giving effect to any redemption or other payment of principal occurring on such day) from the Closing Date until such Notes are paid in full. Interest accruing for any Interest Period will accrue for the period from and including the first day of such Interest Period to and including the last day of such Interest Period. In the event that the date of any Distribution Date or Redemption Date shall not be a Business Day, then notwithstanding any other terms of the Notes or the Indenture described herein, payments need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the nominal date of any such Distribution Date or Redemption Date, as the case may be.

Payments of interest on the Notes will be payable in U.S. Dollars quarterly in arrears on each March 6, June 6, September 6 and December 6, commencing June 6, 2004 (each, a "Distribution Date"), *provided* that (i) the final Distribution Date with respect to the Notes shall be March 6, 2039 and (ii) if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day.

The Issuer will enter into a Basis Swap in order to finance the periodic payment of interest on the Class A-2A Notes on dates other than each Distribution Date, all as described in the Class A-2A Notes Supplement.

So long as any Class of Notes is outstanding, if any Coverage Test applicable to such Class of Notes is not satisfied on any Determination Date relating to a Distribution Date, then funds that would otherwise be used on such Distribution Date to make payments in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of Seniority) and, *second*, such Class of Notes, until each applicable Coverage Test is satisfied. See "Description of the Notes—Priority of Payments".

So long as any Class A Notes or Class B Notes are outstanding, the failure on any Distribution Date to make payment in respect of interest on the Class C Notes by reason of operation of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class C Notes that is not paid when due by operation of the Priority of Payments will be deferred (such interest being referred to herein as "Class C Deferred Interest"); *provided* that no accrued interest on the Class C Notes shall become Class C Deferred Interest unless a more Senior Class of Notes is then outstanding. Any Class C Deferred Interest will be added to the aggregate outstanding principal amount of the Class C Notes, and thereafter interest will accrue on the aggregate outstanding principal amount of the Class C Notes, as so increased. Unless otherwise specified herein, any reference to the principal amount of a Class C Note includes any Class C Deferred Interest added thereto. Upon the payment of Class C Deferred Interest previously capitalized as additional principal, the aggregate outstanding principal amount of the Class C Notes will be reduced by the amount of such payment.

Interest will cease to accrue on each Note or, in the case of a partial repayment, on such part, from the date of repayment or Stated Maturity of such Note unless payment of principal is improperly withheld or unless default is otherwise made with respect to such payments. To the extent lawful and enforceable, interest on any Defaulted Interest on any Note will accrue at the interest rate applicable to such Note until paid. "Defaulted Interest" means any interest due and payable in respect of any Note that is not punctually paid or duly provided for on the applicable Distribution Date or at the Stated Maturity of the Notes and which remains unpaid. Defaulted Interest will not include Class C Deferred Interest.

Definitions

"Interest Period" means (i) in the case of the initial Interest Period, the period from, and including, the Closing Date to, but excluding, the first Distribution Date, and (ii) thereafter, the period from, and including, the Distribution Date immediately following the last day of the immediately preceding Interest Period to, but excluding, the next succeeding Distribution Date.

With respect to each Interest Period, "LIBOR" for purposes of calculating the interest rate for each Class or sub-Class of Notes for such Interest Period will be determined by the Trustee, as calculation agent (the "Calculation Agent") in accordance with the following provisions:

(i) LIBOR for any Interest Period shall equal the offered rate, as determined by the Calculation Agent, for Dollar deposits in Europe of three months that appears on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the purpose of displaying comparable rates) as of 11:00 a.m. (London time) on the applicable LIBOR Determination Date. "LIBOR Determination Date" means, with respect to any Interest Period, the second London Banking Day prior to the first day of such Interest Period.

(ii) If, on any LIBOR Determination Date, such rate does not appear on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the purpose of displaying comparable rates) the Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to prime banks in the London interbank market for Dollar deposits in Europe of three months (except that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for the relevant term commencing on the next following LIBOR Business Day), by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such LIBOR Determination Date made by the Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean. If, on any LIBOR Determination Date, fewer than two Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Calculation Agent are quoting on the relevant LIBOR Determination Date for Dollar deposits for the term of such Interest Period (except that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for the relevant term commencing on the next following LIBOR Business Day), to the principal London offices of leading banks in the London interbank market.

(iii) In respect of any Interest Period having a Designated Maturity other than three months, LIBOR shall be determined through the use of straight-line interpolation by

reference to two rates calculated in accordance with clauses (i) and (ii) above, one of which shall be determined as if the maturity of the Dollar deposits referred to therein were the period of time for which rates are available next shorter than the Interest Period and the other of which shall be determined as if the such maturity were the period of time for which rates are available next longer than the Interest Period; *provided* that, if an Interest Period is less than or equal to seven days, then LIBOR shall be determined by reference to a rate calculated in accordance with clauses (i) and (ii) above as if the maturity of the Dollar deposits referred to therein were a period of time equal to seven days.

(iv) If the Calculation Agent is required but is unable to determine a rate in accordance with either procedure described in clauses (i) and (ii) above, LIBOR with respect to such Interest Period shall be the arithmetic mean of the offered quotations of the Reference Dealers as of 10:00 a.m. (New York time) on the first day of such Interest Period for negotiable U.S. Dollar certificates of deposit of major U.S. money market banks having a remaining maturity closest to the Designated Maturity.

(v) If the Calculation Agent is required but is unable to determine a rate in accordance with any of the procedures described in clauses (i), (ii) or (iv) above, LIBOR with respect to such Interest Period shall be the arithmetic mean of the Base Rate for each day during such Interest Period.

For purposes of clauses (i), (iii), (iv) and (v) above, all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point. For the purposes of clause (ii) above, all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one thirty-second of a percentage point.

As used herein:

"Base Rate" means a fluctuating rate of interest determined by the Calculation Agent as being the rate of interest most recently announced by the Base Rate Reference Bank at its New York office as its base rate, prime rate, reference rate or similar rate for Dollar loans. Changes in the Base Rate will take effect simultaneously with each change in the underlying rate.

"Base Rate Reference Bank" means JPMorgan Chase Bank, or if such bank ceases to exist or is not quoting a base rate, prime rate reference rate or similar rate for Dollar loans, such other major money center commercial bank in New York City, as selected by the Calculation Agent.

"Designated Maturity" means, with respect to any Class of Notes, (i) for the first Interest Period, the number of calendar days from, and including the Closing Date to, but excluding, the first Distribution Date, (ii) for each Interest Period after the first Interest Period (other than the Interest Period ending on March 6, 2039), three months and (iii) for the Interest Period ending on March 6, 2039, the number of calendar days from, and including, the first day of such Interest Period to, but excluding, the next succeeding Distribution Date.

"LIBOR Business Day" means a day on which commercial banks and foreign exchange markets settle payments in Dollars in New York and London.

"London Banking Day" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London.

"Reference Banks" means four major banks in the London interbank market, selected by the Calculation Agent.

"Reference Dealers" means three major dealers in the secondary market for U.S. Dollar certificates of deposit, selected by the Calculation Agent.

For so long as any Note remains outstanding, the Co-Issuers will at all times maintain an agent appointed to calculate LIBOR in respect of each Interest Period. As soon as possible after 11:00 a.m. (London time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (London time) on the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will calculate the interest rate for the Notes for the related Interest Period and the amount of interest for such Interest Period payable in respect of each U.S.\$1,000 in principal amount of each Class of Notes (in each case rounded to the nearest cent, with half a cent being rounded upward) on the related Distribution Date and will communicate such rates and amounts and the related Distribution Date to the Co-Issuers, the Trustee, the Preference Share Paying Agent, each Paying Agent, Euroclear Bank, as operator of the Euroclear System, Clearstream, Luxembourg, DTC and, for so long as any Offered Securities are listed on the Irish Stock Exchange.

The Calculation Agent may be removed by the Co-Issuers at any time. If the Calculation Agent is unable or unwilling to act as such, is removed by the Co-Issuers or fails to determine the interest rate for any Class of Notes or the amount of interest payable in respect of any Class of Notes for any Interest Period, the Co-Issuers will promptly appoint as a replacement Calculation Agent a leading bank that is engaged in transactions in Eurodollar deposits in the international Eurodollar market and which does not control and is not controlled by or under common control with either of the Co-Issuers or any affiliate thereof. The Calculation Agent may not resign its duties without a successor having been duly appointed. The determination of the interest rate for Notes for each Interest Period by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Principal

The Stated Maturity of the Notes is March 6, 2039. Each Class of Notes is scheduled to mature at the Stated Maturity of the Notes unless redeemed or repaid prior thereto. However, the Notes may be paid in full prior to their Stated Maturity. See "Risk Factors—Average Lives, Duration and Prepayment Considerations" and "Maturity, Prepayment and Yield Considerations". Any payment of principal with respect to any Class of Notes (including any payment of principal made in connection with an Optional Redemption, Auction Call Redemption or Tax Redemption) will be made by the Trustee on a *pro rata* basis on each Distribution Date among the Notes of such Class according to the respective unpaid principal amounts thereof outstanding immediately prior to such payment. The Trustee shall, so long as any Class of Notes or the Preference Shares are listed on the Irish Stock Exchange, notify the Irish Stock Exchange not later than the second Business Day preceding each Distribution Date of the amount of principal payments to be made on the Notes of each such Class on such Distribution Date, the amount of any Class C Deferred Interest, the aggregate outstanding principal amount of the Notes of each such Class and the percentage of the original aggregate outstanding principal amount of the Notes of such Class after giving effect to the principal payments, if any, on such Distribution Date.

The "Substitution Period" is the period from (and including) the Closing Date to (but excluding) the earliest of (a) the Distribution Date occurring in March, 2007, (b) the Distribution Date on which the Collateral Manager specifies (by notice to the Trustee) that no further investments in substitute Collateral Debt Securities will occur and (c) the date of termination of such period pursuant to the Indenture by reason of an Event of Default. During the Substitution Period, Specified Principal Proceeds received by the Issuer will be used to pay principal of the Notes in accordance with the Priority of Payments (each such payment, a "Substitution Period Notes Prepayment"). After the Substitution Period, Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes, with principal of a Class of Notes being paid prior to the payment of principal of each Subordinate Class of Notes then outstanding.

Substitution Period

Provided that no Event of Default has occurred and is continuing, any Collateral Debt Security that is not a Defaulted Security, Written-Down Security, Credit Risk Security or Credit Improved Security may be sold and the Sale Proceeds therefrom will be reinvested in substitute Collateral Debt Securities in compliance with the Reinvestment Criteria within ten Business Days from the date of such sale, but only if (i) the aggregate principal balance of all such Collateral Debt Securities sold for (a) the period from and including the Closing Date to and including December 31, 2004 does not exceed 85% of the Discretionary Sale Percentage, (b) any calendar year thereafter ending on or prior to December 31, 2006 does not exceed the Discretionary Sale Percentage and (c) the period from and including January 1, 2007 to and including March 6, 2007 does not exceed 18% of the Discretionary Sale Percentage of the Net Outstanding Portfolio Collateral Balance as of the first day of such period; (ii) no Rating Agency has withdrawn its rating (including any private or confidential rating), if any, of any Class of Notes or reduced any such rating below the rating in effect on the Closing Date by one or more rating subcategories (in the case of Notes other than the Class C Notes) or two or more rating subcategories (in the case of the Class C Notes); and (iii) such sale occurs during the Substitution Period and the Collateral Manager determines, taking into account any factors it deems relevant, that such sales and any related purchases or substitutions will, in the Collateral Manager's judgment, benefit the Issuer in one or more of the following manners: an improvement in one or more of the Collateral Quality Tests or the Standard & Poor's CDO Monitor Test, an improvement in the credit quality of the portfolio, a narrowing of interest rate mismatches or any other improvement which, in the Collateral Manager's judgment, would result in a benefit to the Issuer (and, in each case, without adversely affecting one or more of the Collateral Quality Tests or the Standard & Poor's CDO Monitor Test). For this purpose, any determination of whether the extent of non-compliance with any of the Reinvestment Criteria may not be made worse by such reinvestment shall be made by comparing the Collateral Debt Securities held by the Issuer immediately prior to the sale of such Collateral Debt Security to the Collateral Debt Securities held by the Issuer immediately after such reinvestment.

Mandatory Redemption

Each Class of Notes shall, on any Distribution Date, be subject to mandatory redemption in the event that any Coverage Test applicable to any Class of Notes is not satisfied on the related Determination Date. Any such redemption will be effected, *first*, from Interest Proceeds and, *second* (to the extent that the application of Interest Proceeds pursuant to the Priority of Payments would be insufficient to cause such tests to be satisfied), from Principal Proceeds, in each case, to the extent necessary to cause each applicable Coverage Test to be satisfied.

Any such redemption will be applied to each outstanding Class of Notes in accordance with its relative Seniority and will otherwise be effected as described below under "—Priority of Payments".

The Indenture requires that, no later than 10 days after the Ramp-Up Completion Date, the Co-Issuers notify each of the Rating Agencies and the Hedge Counterparty of the occurrence of the Ramp-Up Completion Date and request in writing that each of the Rating Agencies confirm in writing (a "Rating Confirmation") that it has not reduced or withdrawn the ratings (including any shadow, private and confidential ratings) assigned by it on the Closing Date to the Notes. In the event that the Issuer fails to obtain a Rating Confirmation prior to the first Determination Date following the Ramp-Up Completion Date (a "Rating Confirmation Failure"), Uninvested Proceeds, Principal Proceeds and Interest Proceeds will be applied on the first Distribution Date following the Ramp-Up Completion Date in accordance with the Priority of Payments to the extent necessary for each of the Rating Agencies to provide a Rating Confirmation (and, pending such application on such Distribution Date, each subsequent purchase of any Collateral Debt Security shall be subject to the satisfaction of the Rating Condition).

If the Preference Shareholders have received distributions on the Preference Shares sufficient to achieve a Dividend Yield equal to 15.05% as of any Distribution Date, any remaining Interest Proceeds on such Distribution Date will be applied to pay principal of the Class C Notes until the Class C Notes are paid in full. See "—Priority of Payments—Interest Proceeds".

After the principal of the Class C Notes has been paid in full, Interest Proceeds will be paid to the Preference Share Paying Agent for payment to the Preference Shareholders as a distribution of Interest Proceeds by way of dividend or distributions thereon in accordance with the Preference Share Documents. See "—Priority of Payments—Interest Proceeds".

Auction Call Redemption

In accordance with the procedures set forth in the Indenture (the "Auction Call Redemption Procedures"), the Trustee shall, at the expense of the Issuer, conduct an auction (an "Auction") of the Collateral Debt Securities if, on or prior to the Distribution Date occurring in March, 2012, the Notes have not been redeemed in full. The Auction shall be conducted no later than (1) 10 Business Days prior to the Distribution Date occurring in March 2012 and (2) thereafter, if the Notes are not redeemed in full on the prior Distribution Date, 10 Business Days prior to each subsequent Distribution Date thereafter until the Notes have been redeemed in full (each such date, an "Auction Date"). Any Auction Call Redemption will be subject to the requirement that holders of the Preference Shares shall have received distributions (after giving effect to the distribution in accordance with the Priority of Payments of proceeds of the sale at auction of the Collateral Debt Securities) thereon necessary (a) in the case of an Auction Call Redemption on any Distribution Date occurring in or after March 2012 to but prior to March 2014, to achieve an annualized internal rate of return (an "IRR") equal to 15.05% or (b) in the case of an Auction Call Redemption on a Distribution Date in or after March 2014, to distribute an amount at least equal to the Preference Share Stated Balance at such time plus all unpaid Preference Share Stated Coupon accrued to such time. Any of the Collateral Manager, the Preference Shareholders, the Trustee or their respective affiliates may, but shall not be required to, bid. The Trustee shall sell and transfer all (and not less than all) of the Collateral Debt Securities (which may be divided into eight subpools) to the highest bidder therefor (or to

the combination of bidders that would result in obtaining the highest price therefor) *provided* that:

- (i) the Auction has been conducted in accordance with the Auction Procedures;
- (ii) the Trustee has received bids for the Collateral Debt Securities (or for each related subpool) from at least two prospective purchasers (including the winning bidder or the combination of bidders that would result in the Issuer obtaining the highest price for all the Collateral Debt Securities) identified on a list of qualified bidders (each, a "Listed Bidder") provided by the Collateral Manager to the Trustee (at least one of the Listed Bidders must be an unaffiliated third party with respect to (x) the Collateral Manager and (y) the Initial Purchaser) for (A) the purchase of the Collateral Debt Securities or (B) the purchase of each subpool in accordance with the Indenture;
- (iii) the Collateral Manager certifies that the highest bid or combination of bids would result in the sale proceeds from all of the Collateral Debt Securities (or the related subpools constituting all of the Collateral Debt Securities) which, together with the balance of all Eligible Investments and cash held by the Issuer (other than cash and Eligible Investments held in the Hedge Counterparty Collateral Account), will be at least equal to the sum of (A) Total Senior Redemption Amount plus (B) an amount equal to the greater of (a)(1) the aggregate original purchase price for the Preference Shares (as specified in the Subscription Agreements) minus (2) the aggregate amount of all cash distributions on the Preference Shares (whether in respect of dividends or redemption payments) made to the Preference Share Paying Agent for distribution to the Preference Shareholders on or prior to the relevant Auction Call Redemption Date and (b) zero (such sum, the "Auction Call Redemption Amount"); *provided* that holders of 100% of the aggregate outstanding principal amount of any Class of Notes and/or holders of 100% of the Preference Shares may elect, in connection with any Auction Call Redemption, to receive less than 100% of the portion of the proceeds from the sale of the Collateral Debt Securities conducted for the purpose of such Auction Call Redemption and the balance of Eligible Investments and cash in the Accounts (other than the Hedge Counterparty Collateral Account) that would otherwise be payable to holders of such Class and/or to the Preference Shareholders, in which case the Auction Call Redemption Amount shall be reduced accordingly for purposes of this definition; and
- (iv) the highest bidder (or each of the bidders whose combination of bids would result in the Issuer obtaining the highest price for all the Collateral Debt Securities) enters into a written agreement with the Issuer in a form provided by the Collateral Manager (which the Issuer shall execute if the conditions set forth above and in the Indenture are satisfied, and the execution of which shall constitute certification to the Trustee that such conditions have been satisfied) that obligates the highest bidder (or each of the bidders whose combination of bids would result in obtaining the highest price for all the Collateral Debt Securities) to purchase all of the Collateral Debt Securities (or the relevant subpool(s) to be purchased by each such bidder) with the closing of such purchase (and full payment in cash to the Trustee) to occur on or prior to the sixth Business Day following the relevant Auction Date.

Provided that all of the conditions set forth in clauses (i) through (iv) have been met, the Trustee shall sell and transfer all of the Collateral Debt Securities (or the related subpools constituting all of the Collateral), without representation, warranty or recourse, to such highest bidder (or to the combination of bidders that would result in obtaining the highest price for all the Collateral Debt Securities, as the case may be) in accordance with and upon completion of the Auction Procedures. The Trustee shall deposit the purchase price for the Collateral Debt

Securities in the Collection Accounts, and the Notes and, to the extent funds are available therefor, the Preference Shares, shall be redeemed on the Distribution Date immediately following the relevant Auction Date (such redemption, the "Auction Call Redemption" and such Distribution Date, the "Auction Call Redemption Date").

If any of the foregoing conditions is not met with respect to any Auction, or if the highest bidder (or any of the bidders whose combined bids would result in obtaining the highest price for all the Collateral Debt Securities) fails to pay the purchase price before the sixth Business Day following the relevant Auction Date, (a) the Auction Call Redemption shall not occur on the Distribution Date following the relevant Auction Date, (b) subject to clause (c) below, the Trustee shall decline to consummate such sale and shall not solicit any further bids or otherwise negotiate any further sale of Collateral Debt Securities in relation to such Auction and (c) until the Notes are redeemed in full, the Trustee shall continue to conduct such Auctions on a quarterly basis prior to each next succeeding Distribution Date.

"IRR" means an annualized internal rate of return on the Preference Shares, calculated using the "XIRR" function in Microsoft Excel 2000, or an equivalent function in another software package. The "IRR" will, as of any date, be equal to the per annum discount rate at which the sum of the following cashflows is equal to zero (assuming discounting on a quarterly basis as of each Distribution Date on the basis of a 360 day year of twelve 30-day months), calculated from the Closing Date: (1) the original aggregate liquidation preference of the Preference Shares issued on the Closing Date (which will be deemed to be negative for purposes of this calculation) and (2) the amount of each distribution, if any, on the Preference Shares on each Distribution Date (which will be deemed to be positive for such purposes).

Optional Redemption and Tax Redemption

Subject to certain conditions described herein, the Issuer may redeem the Notes (such redemption, an "Optional Redemption"), in whole but not in part, at the direction of a Majority-in-Interest of Preference Shareholders at the applicable Redemption Price therefor on any Distribution Date. No Optional Redemption may occur prior to the end of the Substitution Period.

In addition, upon the occurrence of a Tax Event, the Notes shall be redeemable (such redemption, a "Tax Redemption"), in whole but not in part, by the Issuer at the direction of the holders of a majority of the aggregate outstanding principal amount of any Class of Notes that, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest payable to such Class on any Distribution Date during or after the Substitution Period (each such Class, an "Affected Class"). Any such redemption may only be effected on a Distribution Date and only from (a) Sale Proceeds of the Collateral and (b) all other funds in the Interest Collection Account, the Principal Collection Account, the Uninvested Proceeds Account, the Expense Account, the Interest Equalization Account, the Interest Reserve Account and the Payment Account, at the applicable Redemption Price (exclusive of installments of principal and interest due on or prior to such date, *provided* payment of which shall have been made or duly provided for, to the Noteholders as provided for in the Indenture). No Tax Redemption may be effected, however, unless (i) all Sale Proceeds under clause (a) above are used to make such Tax Redemption, (ii) funds under clauses (a) and (b) are sufficient to redeem the Notes simultaneously and to pay certain other amounts in accordance with the procedures set forth in the Indenture, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied.

Notwithstanding the immediately preceding paragraph, in connection with any Tax Redemption, holders of at least 66-2/3% of the aggregate outstanding principal amount of an Affected Class of Notes may elect to receive less than 100% of the portion of the Total Senior Redemption Amount that would otherwise be payable to holders of such Affected Class (and the minimum funding requirements specified in the immediately preceding paragraph will be reduced accordingly).

A "Tax Event" will occur if (i) any obligor is, or on the next scheduled payment date under any Collateral Debt Security any obligor will be, required to deduct or withhold from any payment under any Collateral Debt Security to the Issuer for or on account of any tax for whatever reason (whether or not as a result of any change in law or interpretation) and such obligor is not or will not be required to pay to the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding occurred, (ii) any jurisdiction imposes net income, profits, or a similar tax on the Issuer or (iii) the Issuer or the Hedge Counterparty is required to deduct or withhold from any payment under the Hedge Agreement for or on account of any tax and the Issuer is obligated, or such Hedge Counterparty is not obligated, to make a gross up payment. The "Tax Materiality Condition" will be satisfied if the sum of the following exceeds U.S.\$1,000,000 during any 12-month period: (i) the aggregate amount deducted or withheld for or on account of any tax by all obligors from any payment under any Collateral Debt Security (net of any gross-up payment made by such obligor to the Issuer), (ii) the aggregate amount of any net income, profits or similar tax imposed on the Issuer, and (iii) the aggregate of any amounts required to be paid by the Issuer and the deficiencies in the amounts received by the Issuer as a result of any deduction or withholding for or on account of any tax with respect to any payment by the Issuer or any Hedge Counterparty under the Hedge Agreement.

Sale of Collateral

In connection with any sale of Collateral following an Event of Default pursuant to the Indenture or in connection with an Optional Redemption or a Tax Redemption (but not an Auction Call Redemption), the Collateral Manager will cause the Preference Share Paying Agent to deliver to each Preference Shareholder a statement identifying each item of Collateral to be sold and offering the opportunity for each Preference Shareholder that is a Qualified Bidder to submit to the Trustee and the Collateral Manager, as to each Collateral Debt Security (or any thereof as such Qualified Bidder shall specify), a firm and irrevocable bid for the purchase of such Collateral Debt Security; *provided* that (i) such bid, as to any Collateral Debt Security, is for the purchase (in cash and on a delivery versus payment basis) of the entire amount thereof held by the Issuer, (ii) such bid contains a certification that the Preference Shareholder is a Qualified Bidder, (iii) such bid is submitted to the Collateral Manager and the Trustee not later than two Business Days after the date such notice is given by the Preference Share Paying Agent, (iv) such bid remains in effect for not less than 10 Business Days and (v) such bid complies with the other requirements set forth in the Indenture. Any sale of a Collateral Debt Security pursuant to this paragraph will be made to the Qualified Bidder that submitted the highest bid for such Collateral Debt Security complying with the foregoing requirements unless a higher bid meeting the requirements set forth in the Indenture is obtained by the Collateral Manager, the Trustee or the Issuer (including after the submission by such Qualified Bidder of its bid).

A "Qualified Bidder" means any Preference Shareholder or any holder of a beneficial interest in Preference Shares (a) that holds beneficial ownership of not less than 10% of the

outstanding number of Preference Shares and (b) whose (i) short-term unsecured debt obligations (other than such obligations whose rating is based on the credit of a person other than such Preference Shareholder) have a credit rating of "P-1" by Moody's, at least "A-1" by Standard & Poor's and "F1" by Fitch or (ii) if its short-term unsecured debt obligations are not rated by either Moody's or Standard & Poor's, long-term unsecured debt obligations (other than such obligations whose rating is based on the credit of a person other than such Preference Shareholder) are rated by at least one of Moody's and Standard & Poor's and have a credit rating of (if rated by Moody's) at least "A2" by Moody's, (if rated by Standard & Poor's) "A" by Standard & Poor's and "A" by Fitch.

Redemption Procedures

Notice of any Auction Call Redemption, Optional Redemption or Tax Redemption will be given by first-class mail, postage prepaid, mailed not less than 10 Business Days prior to the date scheduled for redemption (with respect to such Auction Call Redemption, Optional Redemption or Tax Redemption, the "Redemption Date"), to each holder of Notes at such holder's address in the register maintained by the registrar under the Indenture, the Hedge Counterparty and to each Rating Agency. In addition, the Trustee will, if and for so long as any Class of Notes or the Preference Shares to be redeemed is listed on the Irish Stock Exchange, (i) cause notice of such Auction Call Redemption, Optional Redemption or Tax Redemption to be delivered to the Company Announcements Office of the Irish Stock Exchange not less than 10 Business Days prior to the Redemption Date and (ii) promptly notify the Irish Stock Exchange of such Auction Call Redemption, Optional Redemption or Tax Redemption. Notes must be surrendered at the offices of any Paying Agent under the Indenture in order to receive the applicable Redemption Price, unless the holder provides (i) an undertaking to surrender such Note thereafter and (ii) in the case of a holder that is not a Qualified Institutional Buyer, such security or indemnity as may be required by the Co-Issuers or the Trustee.

The Notes may not be redeemed pursuant to an Auction Call Redemption, Optional Redemption or Tax Redemption unless at least four Business Days before the scheduled Redemption Date, the Collateral Manager shall have furnished to the Trustee evidence, in form satisfactory to the Trustee, that the Collateral Manager on behalf of the Issuer has entered into a binding agreement or agreements with a financial institution or institutions whose long-term unsecured debt obligations (other than such obligations whose rating is based on the credit of a person other than such institution) have a credit rating from each Rating Agency at least equal to the rating of the Notes or whose short-term unsecured debt obligations have a credit rating of "P-1" by Moody's, "A-1" by Standard & Poor's and "F1" by Fitch to sell, not later than the Business Day immediately preceding the scheduled Redemption Date, in immediately available funds, all or part of the Collateral Debt Securities at a purchase price at least equal to an amount sufficient, together with the Eligible Investments maturing on or prior to the scheduled Redemption Date and all cash, to pay amounts (including termination payments due and payable under the Hedge Agreement) payable under the Priority of Payments prior to the payment of the Notes (including fees and expenses incurred by the Trustee and the Collateral Manager in connection with such sale of Collateral Debt Securities), to pay any amounts due and payable by the Issuer pursuant to the Hedge Agreement (other than any Subordinate Hedge Termination Payment), to pay the Preference Share Stated Balance and the Preference Share Stated Coupon to the Preference Share Paying Agent (for distribution to the Preference Shareholders) and to redeem the Notes on the scheduled Redemption Date at the applicable Redemption Price therefor, together with all accrued interest to the date of redemption and all Class C Deferred Interest (the aggregate amount required to make all such payments and to effect such redemption, the "Total Senior Redemption Amount").

Any such notice of Auction Call Redemption, Optional Redemption or Tax Redemption may be withdrawn by the Issuer up to the fourth Business Day prior to the scheduled Redemption Date by written notice to the Trustee, the Hedge Counterparty and the Collateral Manager only if the Collateral Manager is unable to deliver the sale agreement or agreements referred to above in form satisfactory to the Trustee. Notice of any such withdrawal shall be given by the Trustee to each holder of Notes at such holder's address in the Note Register maintained by the Note Registrar under the Indenture by overnight courier guaranteeing next day delivery, sent not later than the third Business Day prior to the scheduled Redemption Date.

"Subordinate Hedge Termination Payment" means any payment that becomes payable under the Hedge Agreement upon the early termination of the Hedge Agreement (or the transactions outstanding thereunder) by reason of an "Event of Default" with the Hedge Counterparty as the "Defaulting Party" or a "Termination Event" (other than an "Illegality" or a "Tax Event") as to which the Hedge Counterparty is the sole "Affected Party". Terms in quotation marks used in this definition have the respective meanings given to such terms in the Hedge Agreement.

Redemption Price

The amount payable in connection with any Auction Call Redemption, Optional Redemption or Tax Redemption of any Note will be as set forth in the remainder of this paragraph and as set forth above (with respect to each Class of Notes, the "Redemption Price"). The Redemption Price payable with respect to any Note will be an amount equal to (a) 100% of outstanding principal amount of such Note being redeemed plus (b) accrued interest (including accrued, unpaid and uncapitalized interest on Defaulted Interest, if any) thereon plus (c) in the case of the Class C Notes, any Deferred Interest applicable thereto, to the extent that funds are available therefor in accordance with the Priority of Payments.

Cancellation

All Notes that are redeemed or paid and surrendered for cancellation as described herein will forthwith be canceled and may not be reissued or resold.

Payments

Payments in respect of principal of and interest on any Note will be made to the person in whose name such Note is registered 15 days prior to the applicable Distribution Date (the "Record Date"). Payments on each Note will be payable by wire transfer in immediately available funds to a Dollar account maintained by the holder thereof in accordance with wire transfer instructions received by any paying agent appointed under the Indenture (each, a "Paying Agent") on or before the Record Date or, if no wire transfer instructions are received by a Paying Agent in respect of such Note, by a Dollar check drawn on a bank in the United States mailed to the address of the holder of such Note as it appears on the Note Register at the close of business on the Record Date for such payment. Final payments in respect of principal of the Notes will be made against surrender of such Notes at the office of the Paying Agent.

If any payment on the Notes is due on a day that is not a Business Day, then payment will be made on the next succeeding Business Day with the same force and effect as if made on the date for payment. For this purpose, "Business Day" means any day other than Saturday, Sunday or a day on which banking institutions are authorized or obligated by law, regulation or

executive order to close in New York City, London or the city of the principal corporate trust office of the Trustee or, in the case of the final payment of principal of a Note, the place of presentation of such Note. To the extent action is required of the Issuer that has not been delegated to the Trustee, the Collateral Manager or any agent of the Issuer located outside of the Cayman Islands, the Cayman Islands shall be considered in determining "Business Day" for purposes of determining when such Issuer action is required. To the extent action is required of the Irish Paying Agent, Dublin, Ireland shall be considered in determining "Business Day" for purposes of determining when such Irish Paying Agent action is required.

For so long as any Offered Securities are listed on the Irish Stock Exchange and the rules of such exchange shall so require, the Co-Issuers will maintain a listing agent and a Paying Agent with an office in Ireland.

Except as otherwise required by applicable law, any money deposited with the Trustee or any Paying Agent in trust for the payment of principal of or interest on any Note and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid to the Issuer upon request by the Issuer therefor, and the holder of such Note shall thereafter, as an unsecured general creditor, look to the Co-Issuer for payment of such amounts and all liability of the Trustee or such Paying Agent with respect to such trust money shall thereupon cease. The Trustee or the Paying Agent, before being required to make any such release of payment may, but shall not be required to, adopt and employ, at the expense of the Issuer, any reasonable means of notification of such release of payment, including mailing notice of such release to holders whose Notes have been called but have not been surrendered for redemption or whose right to or interest in monies due and payable but not claimed is determinable from the records of any Paying Agent, at the last address of record of each such holder.

Priority of Payments

On any Distribution Date, in accordance with a Note Valuation Report prepared by the Issuer as of the last day of the Due Period preceding such Distribution Date (a "Determination Date"), collections received during the related Due Period in respect of the Collateral will be divided into Interest Proceeds and Principal Proceeds and will be applied by the Trustee in the priority set forth below under "*-Interest Proceeds*" and "*-Principal Proceeds*" (collectively, the "Priority of Payments").

Interest Proceeds. On each Distribution Date, Interest Proceeds with respect to the related Due Period will be applied by the Trustee in the following order of priority (collectively, the "Interest Proceeds Priority of Payments"):

- (1) to pay administrative expenses, in the following order: (a) taxes and filing fees and registration fees (including annual return fees) payable by the Co-Issuers, if any; and then, (b) the amount of any due and unpaid fees and expenses owing to the Trustee; and then, (c) the amount of any due and unpaid fees and expenses owing to the Collateral Administrator; and then, in the following order, (d) the amount of any due and unpaid fees and expenses owing to the Administrator and the Preference Share Paying Agent and, then, any other administrative expenses of the Issuer (including expenses payable to the Collateral Manager under the Collateral Management Agreement); and then (e) if the balance of all Eligible Investments and cash in the Expense Account on the related Determination Date is less than U.S.\$100,000, for deposit to the Expense Account of an amount

equal to the lesser of (x) the amount by which U.S.\$100,000 exceeds the aggregate amount of payments made under (b), (c) and (d) of this clause (1) on such Distribution Date and (y) such amount as would have caused the balance of all Eligible Investments and cash in the Expense Account immediately after such deposit, to equal U.S.\$100,000 (unless the Collateral Manager directs that a lesser amount be deposited to the Expense Account); *provided* that the cumulative amount paid on any Distribution Date under (b), (c) and (d) (excluding any administrative expenses due or accrued with respect to the actions taken on or prior to the Closing Date and reasonable fees payable in connection with the exercise of any rights, privileges and in connection with an Event of Default or delayed payment of proceeds) may not exceed the greater of (i) U.S.\$100,000 and (ii) 0.015% of the Net Outstanding Portfolio Collateral Balance as of the related Determination Date;

- (2) to pay the Senior Collateral Management Fee with respect to such Distribution Date and any Senior Collateral Management Fee with respect to a previous Distribution Date that was not paid on a previous Distribution Date;
- (3) to pay the Hedge Counterparty any amounts due to the Hedge Counterparty under the Hedge Agreement (excluding any Subordinate Hedge Termination Payment);
- (4) to pay accrued and unpaid interest on the Class A-1 Notes (including Defaulted Interest and any interest thereon);
- (5) to pay accrued and unpaid interest on the Class A-2A Notes and Class A-2B Notes (including Defaulted Interest and any interest thereon) pro rata in accordance with their respective original stated principal amounts;
- (6) to pay accrued and unpaid interest on the Class B Notes (including Defaulted Interest and any interest thereon);
- (7) if either of the Class A/B Coverage Tests is not satisfied as of the related Determination Date, to pay principal of the Class A-1 Notes then Outstanding until such Class A/B Coverage Test is satisfied as of such Determination Date or until the Class A-1 Notes are paid in full, and then to pay principal of the Class A-2 Notes then Outstanding until such Class A/B Coverage Test is satisfied as of such Determination Date or until the Class A-2 Notes are paid in full and then to pay principal of the Class B Notes then Outstanding until such Class A/B Coverage Test is satisfied as of such Determination Date or until the Class B Notes are paid in full; *provided* that, for purposes of determining if either of the Class A/B Coverage Tests is satisfied after giving effect to any payment of principal of the Notes pursuant to this clause (7) on the related Distribution Date, the denominator of the Class A/B Overcollateralization Ratio shall be calculated on the related Determination Date after giving effect to such payment of principal;
- (8) to pay accrued and unpaid interest on the Class C Notes (including any Defaulted Interest and any interest thereon, but excluding any Class C Deferred Interest);

- (9) (a) if either of the Class C Coverage Tests is not satisfied as of the related Determination Date (after giving effect to any payment of principal of the Notes pursuant to clause (7) above on the related Distribution Date, subject to the proviso to such clause), to pay principal of the Class A-1 Notes then Outstanding until such Class C Coverage Test is satisfied as of such Determination Date or until the Class A-1 Notes are paid in full, and then to pay principal of the Class A-2 Notes then Outstanding until such Class C Coverage Test is satisfied as of such Determination Date or until the Class A-2 Notes are paid in full and then to pay principal of the Class B Notes then Outstanding until such Class C Coverage Test is satisfied as of such Determination Date or until the Class B Notes are paid in full, and then to pay principal of the Class C Notes then Outstanding (including any Class C Deferred Interest) until such Class C Coverage Test is satisfied as of such Determination Date or until the Class C Notes are paid in full; *provided* that, for purposes of determining if either of the Class C Coverage Tests is satisfied after giving effect to any payment of principal of the Notes pursuant to this clause (9) on the related Distribution Date, the denominator of the Class C Overcollateralization Ratio shall be calculated on the related Determination Date after giving effect to such payment of principal and to any payment of principal pursuant to clause (7) above on such Distribution Date; and *provided* further, that with respect to the Class C Notes, payment of principal not constituting the Class C Deferred Interest shall be paid before principal constituting the Class C Deferred Interest, if any, or (b) if a Rating Confirmation Failure with respect to the Effective Date has occurred, to pay principal, to the extent of funds in the Collection Account representing Interest Proceeds, *first*, to the payment of principal of the Class A-1 Notes until the Class A-1 Notes have been paid in full and *second*, to the payment of principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full, *third*, to the payment of principal of the Class B Notes until the Class B Notes have been paid in full and, *fourth*, to the payment of principal of the Class C Notes until the Class C Notes have been paid in full, in the amounts necessary for each Rating Agency to confirm its respective ratings of the Notes assigned on the Closing Date or until such confirmation is received or until each Class of Notes is paid in full;
- (10) to pay Class C Deferred Interest, if any;
- (11) to pay (a) any due and unpaid administrative expenses owing to the Trustee, the Collateral Administrator, the Class A-2A Agent, the Administrator, the Preference Share Paying Agent, the Note Registrar and the Preference Share Registrar to the extent, in each case, not paid in full under clause (1) above (and, in the same order of priority as set forth in clause (1) above), and (b) on a pro rata basis, any due and unpaid expenses and other liabilities of the Co-Issuers to the extent not paid under clause (1) above, whether as a result of an amount limitation imposed thereunder or otherwise;
- (12) to pay to the Collateral Manager the Subordinate Collateral Management Fee with respect to such Distribution Date and any due and unpaid Subordinate Collateral Management Fee with respect to a previous Distribution Date that was not paid on a previous Distribution Date;
- (13) to pay any Subordinate Hedge Termination Payment that becomes payable under the Hedge Agreement; and

- (14) from Excess Interest Funds remaining after application of the amounts described in clauses (1) through (13) above (i) first, to the Preference Share Paying Agent for payment to the Preference Shareholders as a distribution of Interest Proceeds by way of dividend thereon to the extent necessary for the Preference Shareholders to receive an annualized Dividend Yield equal to 15.05% per annum on such Distribution Date, (ii) second, to the payment of principal of the Class C Notes until the Class C Notes have been paid in full, and (iii) third, after the principal of the Class C Notes has been paid in full, to the Preference Share Paying Agent for payment to the Preference Shareholders as a distribution of Interest Proceeds by way of dividend or distributions thereon in accordance with the Preference Share Documents.

All remaining Interest Proceeds after payment of clauses (1) through (13) under "*-Interest Proceeds*" above are referred to herein as the "Excess Interest Funds", and all remaining Principal Proceeds after payment of clauses (1) through (9) under "*-Principal Proceeds*" below are referred to herein as the "Excess Principal Funds" and, together with the Excess Interest Funds, the "Excess Funds".

Principal Proceeds. On each Distribution Date, Principal Proceeds with respect to the related Due Period will be applied by the Trustee in the following order of priority (collectively, the "Principal Proceeds Priority of Payments"):

- (1) to the payment of the amounts referred to in clauses (1) to (6) of "*-Interest Proceeds*" above in the same order of priority specified therein, but only to the extent not paid in full thereunder;
- (2) (a) for each Distribution Date through and including the last Distribution Date during the Substitution Period, *first*, to the payment of principal of the Class A-1 Notes until the Class A-1 Notes have been paid in full and *second*, to the payment of principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full and *third*, to the payment of principal of the Class B Notes until the Class B Notes have been paid in full; *provided* that amounts applied for payment under this subclause (a) shall not exceed an amount equal to the Specified Principal Proceeds with respect to the related Due Period; and (b) after the end of the Substitution Period to pay, *first*, the principal of the Class A-1 Notes until the Class A-1 Notes have been paid in full, and *second*, the principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full and *third*, the principal of the Class B Notes until the Class B Notes have been paid in full;
- (3) after giving effect to any application of Interest Proceeds pursuant to clauses (7) and (9) of "*-Interest Proceeds*" above and clause (2) above, if either of the Class A/B Coverage Tests is not satisfied as of the related Determination Date and if any of the Class A Notes or the Class B Notes remain outstanding, to pay, *first*, to the payment of principal of the Class A-1 Notes until the Class A-1 Notes have been paid in full and *second*, to the payment of principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full and *third*, to the payment of principal of the Class B Notes until the Class B Notes have been paid in full, in each case, until such Class A/B Coverage Test is satisfied as of such Determination Date or until the Class B Notes are paid in full; *provided* that, for purposes of determining if either of the Class A/B Coverage Tests is satisfied

after giving effect to any payment of principal of the Notes pursuant to this clause (3) on the related Distribution Date, the denominator of the Class A/B Overcollateralization Ratio shall be calculated on the related Determination Date after giving effect to such payment of principal; *provided* further, that for purposes of determining if either of the Class A/B Coverage Tests is satisfied, the numerator of the Class A/B Overcollateralization Ratio shall be calculated after giving effect to any Principal Proceeds to be applied pursuant to clauses (1) and (2) above;

- (4) to the payment of the amounts referred to in clause (8) of "—Interest Proceeds" above in the same order of priority specified therein, but only to the extent not paid in full thereunder;
- (5) (a) for each Distribution Date through and including the last Distribution Date during the Substitution Period, so long as each of the Class A Notes and the Class B Notes is paid in full, to the payment of principal of the Class C Notes (including any Class C Deferred Interest) until the Class C Notes have been paid in full; *provided* that amounts applied for payment under this subclause (a) and clause (2)(a) above shall not exceed an amount equal to the Specified Principal Proceeds with respect to the related Due Period; and (b) after the end of the Substitution Period, so long as each of the Class A Notes and the Class B Notes is paid in full, to pay the principal of the Class C Notes until the Class C Notes (including any Class C Deferred Interest) have been paid in full;
- (6) after giving effect to any application of Interest Proceeds pursuant to clauses (7) and (9) of "Interest Proceeds" above (and after giving effect to any payment of principal of the Notes pursuant to clause (3) above on the related Distribution Date, subject to the proviso to such clause, and pursuant to clauses (2) and (5) above), (a) if either of the Class C Coverage Tests is not satisfied as of the related Determination Date and if any of the Class A Notes or the Class B Notes remain outstanding, to pay principal of the Class A-1 Notes and then the Class A-2 Notes then Outstanding until such Class C Coverage Test is satisfied as of such Determination Date or until the Class A Notes are paid in full, and then to pay principal of the Class B Notes then Outstanding until such Class C Coverage Test is satisfied as of such Determination Date or until the Class B Notes are paid in full, and then, to pay principal of the Class C Notes then Outstanding (including any Class C Deferred Interest) until such Class C Coverage Test is satisfied as of such Determination Date or until the Class C Notes are paid in full; *provided* that, for purposes of determining if either of the Class C Coverage Tests is satisfied after giving effect to any payment of principal of the Notes pursuant to this clause (6) on the related Distribution Date, the denominator of the Class C Overcollateralization Ratio shall be calculated on the related Determination Date after giving effect to such payment of principal; *provided further*, that for purposes of determining if either of the Class C Coverage Tests is satisfied, the numerator of the Class C Overcollateralization Ratio shall be calculated after giving effect to any Principal Proceeds to be applied pursuant to clauses (1) through (5) above on the related Distribution Date; and *provided further*, that with respect to the Class C Notes, payment of principal not constituting the Class C Deferred Interest shall be paid before principal constituting the Class C Deferred Interest, if any, or (b) if a Rating Confirmation Failure with respect to the Effective Date has occurred, to pay

principal, to the extent of funds in the Collection Account representing Principal Proceeds, *first*, on the Class A-1 Notes until paid in full, *second*, on the Class A-2 Notes until paid in full, and *third*, on the Class B Notes until paid in full and then on the Class C Notes until paid in full, in the amounts necessary for each Rating Agency to confirm its respective ratings of the Notes assigned on the Closing Date or until such confirmation is received or until each Class of Notes is paid in full;

- (7) to the payment of the amounts referred to in clause (10) of "—Interest Proceeds" above, but only to the extent not paid in full thereunder;
- (8) for each Distribution Date through and including the last Distribution Date during the Substitution Period, to pay to the Collection Account, to remain available for application to the purchase of substitute Collateral Debt Securities (subject to satisfaction of the Reinvestment Criteria) by no later than the last day of the Due Period relating to the Distribution Date immediately following such Distribution Date, in an amount equal to the amount of Principal Proceeds received during the related Due Period (after giving effect to any payments pursuant to clauses (1) through (7) above);
- (9) to the payment of amounts referred to in clauses (11), (12) and (13) of "—Interest Proceeds" above in the same order of priority therein, but only to the extent not paid thereunder; and
- (10) to the Preference Share Paying Agent, on behalf of the Issuer, for the payment of dividends or distributions on the Preference Shares in accordance with the Preference Share Documents.

Except as otherwise expressly provided in the Priority of Payments, if on any Distribution Date, the amount available in the Payment Account from amounts received in the related Due Period are insufficient to make the full amount of the disbursements required by any clause in this section to different persons, the Trustee will make the disbursements called for by each such paragraph ratably in accordance with the respective amounts of such disbursements then due and payable to the extent funds are available therefor.

If the Class A Notes, the Class B Notes, the Class C Notes and the Preference Shares have not been redeemed prior to the Distribution Date in March, 2039, the Issuer (or the Collateral Manager acting pursuant to the Collateral Management Agreement on behalf of the Issuer) will sell all of the Collateral Debt Securities and all Eligible Investments and sell or liquidate all other Collateral. All net proceeds from such liquidation and all available cash will be applied to the payment (in the order of priorities set forth above) of all (i) fees, (ii) expenses (including any amount owing by the Issuer under the Hedge Agreement), (iii) interest (including any Defaulted Interest and interest on Defaulted Interest, any Class C Deferred Interest and interest on any Class C Deferred Interest) on and principal of the Notes, (iv) the return of U.S.\$1,000 of capital contributed to the Issuer by the owner of the Issuer's ordinary shares in accordance with the Issuer Charter and (v) a U.S.\$1,000 profit fee to the Issuer will be distributed to the ordinary shareholders, with the balance remaining being paid to the Preference Share Paying Agent, on behalf of the Issuer, for the payment of dividends or distributions on the Preference Shares in accordance with the Preference Share Documents.

Certain Definitions

"Applicable Recovery Rate" means, with respect to any Collateral Debt Security on any Measurement Date, the lower of: (a) an amount equal to (i) 100% minus (ii) the percentage for such Collateral Debt Security set forth in the Moody's loss rate matrix attached as Part I of Schedule A in (x) the table corresponding to the relevant type of Asset-Backed Security, (y) the column in such table setting forth the Moody's Rating of such Collateral Debt Security as of the date of issuance of such Collateral Debt Security and (z) the row in such table opposite the percentage of the issue of which such Collateral Debt Security is a part relative to the total capitalization of (including both debt and equity securities issued by) the relevant issuer of or obligor on such Collateral Debt Security determined as of the date of issuance of such Collateral Debt Security; *provided* that (1) if the timely payment of principal of and interest on such Collateral Debt Security is guaranteed by another Person (and such guarantee ranks at least equally and ratably with such guarantor's senior unsecured long-term debt), such amount shall be 30%, (2) if such Collateral Debt Security is a REIT Debt Security, such amount shall be 40% (or 10% in the case of REIT Debt Securities-Health Care or REIT Debt Securities-Mortgage) and (3) if such Collateral Debt Security is a Reinsurance Security, such amount shall be assigned by Moody's upon the purchase of such Collateral Debt Security; (b) an amount equal to the percentage for such Collateral Debt Security set forth in the Standard & Poor's recovery rate matrix attached as Part II of Schedule A in (x) the applicable table and (y) the row in such table opposite the Standard & Poor's Rating of such Collateral Debt Security as of the date of issuance of such Collateral Debt Security (or, in the case of a Defaulted Security, the Standard & Poor's Rating at the time of default); *provided* that, if the timely payment of principal of and interest on such Collateral Debt Security is guaranteed by a corporate guarantor (and such guarantee ranks at least equally and ratably with such corporate guarantor's senior unsecured long-term debt), such amount shall be the percentage specified in Paragraph D of Part II of Schedule A; and (c) the Fitch Recovery Rate for such Collateral Debt Security.

"Benchmark Rate" means (a) with respect to a Collateral Debt Security that bears interest at a floating rate, the offered rate for Dollar deposits in Europe of six months that appears on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the purpose of displaying comparable rates), as of 11:00 a.m. (London time) on the second London Banking Day preceding the date of acquisition of such Collateral Debt Security and (b) with respect to a Collateral Debt Security that does not bear interest at a floating rate, the yield reported, as of 10:00 a.m. (New York City time) on the second Business Day preceding the date of acquisition of such Collateral Debt Security, on the display designated as "Page 678" on the Telerate Access Service (or such other display as may replace Page 678 on Telerate Access Service) for actively traded U.S. Treasury securities having a maturity equal to the Weighted Average Life of such Collateral Debt Security on such date of acquisition.

"Calculation Amount" means, with respect to any Defaulted Security or Deferred Interest PIK Security at any time, the lesser of (a) the fair market value of such Defaulted Security or Deferred Interest PIK Security and (b) the product of (i) the Applicable Recovery Rate multiplied by (ii) the principal balance of such Defaulted Security or Deferred Interest PIK Security.

"Class A-2A Agency and Amending Agreement" means the agreement dated as of the Closing Date between the Co-Issuers, the Trustee and the agent specified therein whereby such agent undertakes to perform certain tasks specified therein on behalf of the Co-Issuers.

"Deferred Interest PIK Security" means a PIK Security with respect to which payment of interest either in whole or in part has been deferred and capitalized in an amount equal to the

amount of interest payable in respect of the lesser of (a) one payment period and (b) a period of six months, but only until such time as payment of interest on such PIK Security has resumed and all capitalized and deferred interest has been paid in accordance with the terms of the Underlying Instruments.

"Determination Date" means the last day of a Due Period.

"Discount Haircut Amount", with respect to any Collateral Debt Security (a) acquired for a purchase price of less than 75% of the par amount thereof, (b) that is not acquired by the Issuer using Sale Proceeds received in respect of one or more Collateral Debt Securities that (i) was previously subject to this definition and (ii) was sold or otherwise liquidated by the Issuer for a price (excluding any accrued interest payable thereon) that is less than 75% of the outstanding principal amount thereof as of the date of such sale or other liquidation and (c) on which the effective yield (as determined by the Collateral Manager) on the date of acquisition thereof by the Issuer is greater than the sum of (i) the relevant Benchmark Rate plus (ii) 3.00%, means an amount equal to the excess of (x) the outstanding principal amount of such Collateral Debt Security over (y) the product of such purchase price (expressed as a percentage of par on the date of purchase) multiplied by the outstanding principal amount of such Collateral Debt Security; *provided* that any Collateral Debt Security acquired for a purchase price of less than 75% of the par amount thereof shall no longer be subject to this definition if its fair market value shall exceed 85% of its outstanding principal amount for at least 60 consecutive days.

"Dividend Yield" means, as of any Distribution Date, (a) the aggregate amount distributed on such Distribution Date pursuant to clause (14) under "Priority of Payments—Interest Proceeds" above divided by (b) the aggregate liquidation preference of all Preference Shares on such Distribution Date (prior to giving effect to any distribution in respect of Preference Shares on such Distribution Date) as reported to the Trustee by the Administrator multiplied by (c) 360 divided by (d) the number of days during the related Interest Period (calculated on the basis of a year of 360 days and twelve 30-day months).

"Due Period" means, with respect to any Distribution Date, the period commencing immediately following the fifth Business Day prior to the preceding Distribution Date (or on the Closing Date, in the case of the Due Period relating to the first Distribution Date) and ending on the fifth Business Day prior to such Distribution Date (without giving effect to any Business Day adjustment thereto) or, in the case of the Due Period that is applicable to the Distribution Date relating to the Stated Maturity of any Class of Notes, such Due Period shall end on the day preceding the Stated Maturity.

"Equity Security" means any equity security acquired by the Issuer as a result of the exercise or conversion of a Collateral Debt Security, in conjunction with the purchase of a Collateral Debt Security or in exchange for a Defaulted Security.

"Fitch Recovery Rate" means, with respect to any Defaulted Security or Deferred Interest PIK Security on any Measurement Date, an amount equal to the percentage corresponding to the domicile and seniority of such Defaulted Security or Deferred Interest PIK Security, as applicable, as set forth in the Fitch Recovery Rate Matrix attached as Schedule D hereto; *provided* that the applicable percentage shall be the percentage corresponding to the most senior Outstanding Class of Notes then rated by Fitch.

"Interest Proceeds" means, with respect to any Due Period, the sum (without duplication) of: (1) all payments of interest on the Collateral Debt Securities during such Due

Period (excluding both (a) accrued interest and interest in respect of Deferred Interest PIK Securities included in Principal Proceeds pursuant to clauses (8) and (9) of the definition of Principal Proceeds and (b) payments of interest on Semi-Annual Pay Securities during such Due Period required to be deposited into the Interest Equalization Account), together with the amount, if any, released from the Interest Equalization Account for deposit into the Interest Collection Account with respect to such Due Period; (2) all accrued interest received in cash by the Issuer with respect to Collateral Debt Securities sold by the Issuer (excluding any accrued and unpaid interest on any Credit Improved Security or Credit Risk Security sold or reinvested at the option of the Collateral Manager in any other Collateral Debt Security, Sale Proceeds received in respect of Defaulted Securities and Written Down Securities and accrued interest included in Principal Proceeds pursuant to clause (8) of the definition of Principal Proceeds); (3) all payments of interest (including any amount representing the accreted portion of a discount from the face amount of an Eligible Investment) on Eligible Investments in the Collection Accounts, the Interest Reserve Account, Interest Equalization Account and Uninvested Proceeds Account received in cash by the Issuer during such Due Period and all payments of principal, including repayments, on Eligible Investments purchased with amounts from the Interest Collection Account received by the Issuer during such Due Period; (4) all amendment and waiver fees, all late payment fees, and all other fees and commissions received in cash by the Issuer during such Due Period in connection with such Collateral Debt Securities, Eligible Investments and U.S. Agency Securities (other than fees and commissions received in respect of Defaulted Securities and Written Down Securities and yield maintenance payments included in Principal Proceeds pursuant to clause (10) of the definition thereof); (5) all payments received pursuant to the Hedge Agreement (excluding any payments received by the Issuer by reason of an event of default or termination event that are required to be used for the purchase of a replacement Hedge Agreement) less any deferred premium payments payable by the Issuer under the Hedge Agreement during such Due Period, and (6) payments of interest on U.S. Agency Securities to the extent not reinvested in Collateral Debt Securities on or before the Ramp-Up Completion Date; *provided* that Interest Proceeds shall in no event include (i) any payment or proceeds specifically defined as "Principal Proceeds" in the definition thereof (including all recoveries of principal and interest on Defaulted Securities and Written Down Securities up to the par amount thereof) and (ii) the U.S.\$1,000 of capital contributed by the owners of the Issuer's ordinary shares in accordance with the Issuer Charter or U.S.\$1,000 representing a profit fee to the Issuer.

"Measurement Date" means any of the following: (a) the Closing Date, the Ramp-Up Test Date and the Ramp-Up Completion Date, (b) any date upon which the Issuer acquires or disposes of any Collateral Debt Security, (c) any date after the Ramp-Up Completion Date on which a Collateral Debt Security becomes a Defaulted Security, (d) each Determination Date, (e) the 10th Business Day of any calendar month ending after the Ramp-Up Completion Date (excluding any month in which a Determination Date falls) and (f) with two Business Days' notice to the Issuer and the Trustee, any other Business Day that any Rating Agency or Holders of more than 50% of the aggregate outstanding principal amount of any Class of Notes requests to be a "Measurement Date"; *provided* that, if any such date would otherwise fall on a day that is not a Business Day, the relevant Measurement Date will be the next succeeding day that is a Business Day.

"Moody's B Rating Category" means, with respect to any Collateral Debt Security, such Collateral Debt Security having a Moody's Rating of "B1", "B2" or "B3".

"Moody's Ba Rating Category" means, with respect to any Collateral Debt Security, such Collateral Debt Security having a Moody's Rating of "Ba1", "Ba2" or "Ba3".

"Moody's Caa Rating Category" means, with respect to any Collateral Debt Security, such Collateral Debt Security having a Moody's Rating of "Caa1", "Caa2" or "Caa3".

"Net Outstanding Portfolio Collateral Balance" means, on any Measurement Date, an amount equal to (a) the aggregate principal balance on such Measurement Date of all Collateral Debt Securities plus (b) the aggregate principal balance of all Principal Proceeds and Uninvested Proceeds held as cash and Eligible Investments and U.S. Agency Securities purchased with Principal Proceeds or Uninvested Proceeds and any amount on deposit at such time in the Principal Collection Account or the Uninvested Proceeds Account minus (c) the aggregate principal balance on such Measurement Date of all Collateral Debt Securities that are (i) Defaulted Securities or Deferred Interest PIK Securities or (ii) Equity Securities plus (d) for each Defaulted Security or Deferred Interest PIK Security, the Calculation Amount with respect to such Defaulted Security or Deferred Interest PIK Security minus (e) solely for the purpose of calculating the Net Outstanding Portfolio Collateral Balance in connection with any of the Overcollateralization Tests, the sum of (i) the Overcollateralization Haircut Amount plus (ii) the Discount Haircut Amount. If a Collateral Debt Security falls within the scope of both defined terms "Overcollateralization Haircut Amount" and "Discount Haircut Amount", such Collateral Debt Security shall fall within the scope of only one of such two defined terms (being the defined term which reduces the Net Outstanding Portfolio Collateral Balance by the larger amount) and shall be excluded from the scope of the other defined term.

"Overcollateralization Haircut Amount" means, with respect to any date of determination, an amount equal to the sum of:

- (a) the product of (i) 50% multiplied by (ii) the aggregate principal balance of all pledged Collateral Debt Securities (other than Deferred Interest PIK Securities and Defaulted Securities) on such date of determination that have a Moody's Rating within the Moody's Caa Rating Category;
- (b) the product of (i) 30% multiplied by (ii) the excess, if any, of (x) the aggregate principal balance of all pledged Collateral Debt Securities (other than Deferred Interest PIK Securities and Defaulted Securities) on such date of determination that have a Standard & Poor's Rating within the Standard & Poor's CCC Rating Category over (y) 5% of the aggregate principal balance of all pledged Collateral Debt Securities (other than Deferred Interest PIK Securities and Defaulted Securities) on such date of determination;
- (c) the product of (i) 20% multiplied by (ii) the aggregate principal balance of all pledged Collateral Debt Securities (other than Deferred Interest PIK Securities and Defaulted Securities) on such date of determination that have a Moody's Rating within the Moody's B Rating Category; and
- (d) the product of (i) 10% multiplied by (ii) the excess (if any) of (x) the aggregate principal balance of all pledged Collateral Debt Securities (other than Deferred Interest PIK Securities and Defaulted Securities) on such date of determination that have a Moody's Rating within the Moody's Ba Rating Category over (y) 10% of the aggregate principal balance of all pledged Collateral Debt Securities (other than Deferred Interest PIK Securities and Defaulted Securities) on such date of determination.

If a Collateral Debt Security falls within more than one of the four categories described in the foregoing clauses, then such Collateral Debt Security shall be included in the category that results in the greatest Overcollateralization Haircut Amount (and not in any of the three other categories).

"PIK Security" means any Collateral Debt Security that, pursuant to the terms of the related Underlying Instruments, permits the payment of interest thereon to be deferred or capitalized as additional principal thereof or that issues identical securities in place of payments of interest in cash.

"Principal Proceeds" means, with respect to any Due Period, the sum (without duplication) of: (1) any Uninvested Proceeds transferred from the Uninvested Proceeds Account on the Ramp-Up Completion Date; (2) all payments of principal on the Collateral Debt Securities and Eligible Investments (other than Uninvested Proceeds and payments of principal of Eligible Investments acquired with Interest Proceeds) received in cash by the Issuer during such Due Period including prepayments or mandatory sinking fund payments, or payments in respect of optional redemptions, exchange offers, tender offers, recoveries of principal and interest on Defaulted Securities and Written Down Securities, up to the par amount thereof, including the proceeds of a sale of any Equity Security and any amounts received as a result of optional redemptions, exchange offers, tender offers for any Equity Security received in cash by the Issuer during such Due Period; (3) Sale Proceeds received by the Issuer during such Due Period (excluding those included in Interest Proceeds as defined above); (4) all payments of principal on Eligible Investments purchased with amounts from the Principal Collection Account or Uninvested Proceeds Account (excluding any amount representing the accreted portion of a discount from the face amount of an Eligible Investment) received in cash by the Issuer during such Due Period; (5) all amendment, waiver, late payment fees and other fees and commissions, collected during the related Due Period in respect of Defaulted Securities and Written Down Securities; (6) any proceeds resulting from the termination and liquidation of the Hedge Agreement, to the extent such proceeds exceed the cost of entering into a replacement Hedge Agreement in accordance with the requirements set forth in the Indenture; (7) all payments received in cash by the Issuer during such Due Period that represent call, prepayment or redemption premiums; (8) all payments of interest received to the extent that they represent accrued interest purchased with Principal Proceeds or Uninvested Proceeds; (9) all payments of interest received in respect of Deferred Interest PIK Securities; (10) all yield maintenance payments received in cash by the Issuer during such Due Period; and (11) all other payments received in connection with the Collateral Debt Securities, Eligible Investments, U.S. Agency Securities and any Hedge Agreement that are not included in Interest Proceeds; *provided that* in no event shall Principal Proceeds include the U.S.\$1,000 of capital contributed by the owners of the Issuer's ordinary shares in accordance with the Issuer Charter or U.S.\$1,000 representing a profit fee to the Issuer.

"Standard & Poor's CCC Rating Category" means, with respect to any Collateral Debt Security, such Collateral Debt Security having a Standard & Poor's Rating of "CCC+", "CCC" or "CCC-".

"Underlying Instruments" means the indenture or other agreement pursuant to which a Collateral Debt Security, Eligible Investment or Equity Security has been issued or created and each other agreement that governs the terms of or secures the obligations represented by such Collateral Debt Security, Eligible Investment or Equity Security or of which holders of such Collateral Debt Security, Eligible Investment or Equity Security are the beneficiaries.

"Uninvested Proceeds" means, at any time, the net proceeds received by the Issuer on the Closing Date from the initial issuance of the Offered Securities and under the Hedge Agreement, to the extent such proceeds have not theretofore been invested in Collateral Debt Securities or deposited in the Expense Account or the Interest Reserve Account or invested in Collateral Debt Securities in the manner described herein.

The Coverage Tests

The Coverage Tests applicable to a Class of Notes will be used primarily to determine whether and to what extent Interest Proceeds may be used to pay interest on Classes of Notes Subordinate to such Class and certain other expenses (including the Subordinate Collateral Management Fee) and whether and to what extent Principal Proceeds may be reinvested in Collateral Debt Securities. In the event that any Class A/B Coverage Test is not satisfied on any Determination Date, funds that would otherwise be used to pay interest on the Class C Notes and certain other expenses and for reinvestment in Collateral Debt Securities must instead be used to pay principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes and *third*, the Class B Notes on the related Distribution Date, to the extent necessary to cause each Class A/B Coverage Test to be satisfied. In the event that either Class C Coverage Test is not satisfied on any Determination Date, funds that would otherwise be distributed to the Preference Shares and certain other expenses and for reinvestment in Collateral Debt Securities must instead be used to pay principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes and *fourth*, the Class C Notes on the related Distribution Date, to the extent necessary to cause each Class C Coverage Test to be satisfied. See "Priority of Payments".

The "Class A/B Coverage Tests" will consist of the Class A/B Overcollateralization Test and the Class A/B Interest Coverage Test. The "Class C Coverage Tests" will consist of the Class C Overcollateralization Test and the Class C Interest Coverage Test. For purposes of the Class A/B Coverage Tests and the Class C Coverage Tests (collectively, the "Coverage Tests"), unless otherwise specified, a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the Synthetic Security and not of the related Reference Obligation. None of the Coverage Tests will apply prior to the Ramp-Up Completion Date.

The Class A/B Overcollateralization Test:

The "Class A/B Overcollateralization Ratio" is, as of any Measurement Date, the number (expressed as a percentage) calculated by dividing (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date by (b) the aggregate outstanding principal amount of the Class A Notes plus the aggregate outstanding principal amount of the Class B Notes.

The "Class A/B Overcollateralization Test" will be satisfied on any Measurement Date occurring on or after the Ramp-Up Completion Date if the Class A/B Overcollateralization Ratio on such Measurement Date is equal to or greater than 103.81%.

The Class C Overcollateralization Test:

The "Class C Overcollateralization Ratio" is, as of any Measurement Date, the number (expressed as a percentage) calculated by dividing (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date by (b) the aggregate outstanding principal amount of the Class A Notes plus the aggregate outstanding principal amount of the Class B Notes plus the

aggregate outstanding principal amount of the Class C Notes (including, without duplication, any Class C Deferred Interest).

The "Class C Overcollateralization Test" will be satisfied on any Measurement Date occurring on or after the Ramp-Up Completion Date if the Class C Overcollateralization Ratio on such Measurement Date is equal to or greater than 101.91%.

The Interest Coverage Tests:

The Interest Coverage Ratio with respect to the Class A Notes and the Class B Notes (the "Class A/B Interest Coverage Ratio") and the Interest Coverage Ratio with respect to the Class C Notes (the "Class C Interest Coverage Ratio"), as of any Measurement Date will be calculated by dividing:

(a) the sum of (i) the scheduled distributions of interest due (in each case regardless of whether the due date for any such interest payment has yet occurred) in the Due Period in which such Measurement Date occurs on (x) the Collateral Debt Securities (other than Interest Only Securities that are not Qualifying Interest Only Securities) and (y) any Eligible Investments held in the Collection Accounts (whether such Eligible Investments were purchased with Interest Proceeds or Principal Proceeds) plus (ii) any fees actually received by the Issuer during such Due Period that constitute Interest Proceeds plus (iii) the amount, if any, scheduled to be paid to the Issuer by the Hedge Counterparty under the Hedge Agreement on the Distribution Date relating to such Due Period minus (iv) the amount, if any, scheduled to be paid to the Hedge Counterparty by the Issuer under the Hedge Agreement on the Distribution Date relating to such Due Period minus (v) taxes and filing and registration fees owed by the Co-Issuers and payable on the Distribution Date relating to such Due Period minus (vi) the amounts scheduled to be paid (x) to the Trustee, the Collateral Administrator, the Class A-2A Agent, the Preference Share Paying Agent, the Note Registrar, the Preference Share Registrar and the Administrator of accrued and unpaid fees and expenses owing to them under the Indenture, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement, the Class A-2A Agency and Amending Agreement and the Administration Agreement, and (y) for other accrued and unpaid administrative expenses of the Co-Issuers (excluding Collateral Management Fee and principal and interest on the Notes), to the extent all such payments pursuant to this clause (vi) do not exceed for any Distribution Date the greater of (A) U.S.\$100,000 and (B) 0.015% of the Net Outstanding Portfolio Collateral Balance as of the preceding Determination Date minus (vii) the amount, if any, scheduled to be paid to the Collateral Manager of accrued and unpaid Senior Collateral Management Fees plus (viii) the amount released from the Interest Equalization Account for deposit into the Interest Collection Account with respect to such Due Period minus (ix) scheduled distributions of interest on Semi-Annual Pay Securities due in such Due Period required to be deposited into the Interest Equalization Account; by

(b) an amount equal to the sum of the scheduled interest on the Class A Notes and the Class B Notes and, in the case of the Class C Interest Coverage Test, the Class C Notes (including any Defaulted Interest thereon and any accrued interest on such Defaulted Interest, but excluding Class C Deferred Interest) payable on the related Distribution Date.

For the purpose of determining compliance with any Interest Coverage Test, there will be excluded all scheduled payments of interest or principal on Defaulted Securities and Deferred Interest PIK Securities and any payment, including any amount payable to the Issuer by the Hedge Counterparty, that will not be made in cash or received when due, as determined by the Collateral Manager in its judgment (exercised in accordance with the standard of care set forth in the Collateral Management Agreement). Scheduled interest payments in respect of Non-Performing NIM Securities shall be included in the computation of an Interest Coverage Ratio in an amount based on a recovery rate determined by Standard & Poor's on a case-by-case basis. For purposes of calculating any Interest Coverage Ratio, (i) the expected interest income on floating rate Collateral Debt Securities and Eligible Investments and under the Hedge Agreement and the expected interest payable on the Notes will be calculated using the interest rates applicable thereto on the applicable Measurement Date, (ii) accrued original issue discount on Eligible Investments will be deemed to be a scheduled interest payment thereon due on the date such original issue discount is scheduled to be paid, (iii) it will be assumed that no principal payments are made on the Notes during the applicable periods, (iv) payments made by the Basis Swap Counterparty pursuant to the Basis Swap will not constitute scheduled interest on any Class of Notes and (v) it will be assumed that interest rate used to determine an interest payment on a Qualifying Interest Only Security that has not yet been received in cash by the Issuer shall be the Adjusted Interest Only Security Cash Flow with respect to such Qualifying Interest Only Security.

"Qualifying Interest Only Securities" means an Interest Only Security having a Moody's Rating of "Aaa", a Standard & Poor's Rating of "AAA" and a Fitch Rating of "AAA".

The "Class A/B Interest Coverage Test" will be satisfied, for so long as any Class A Notes or Class B Notes remain Outstanding, on any Measurement Date if the Class A/B Interest Coverage Ratio is equal to or greater than (a) on the Closing Date and thereafter to but excluding the Ramp-Up Test Date, 105%, (b) thereafter to but excluding the Ramp-Up Completion Date, 110%, and (c) thereafter, 115%.

The "Class C Interest Coverage Test" will be satisfied, for so long as any Class A Notes, Class B Notes or Class C Notes remain Outstanding, if the Class C Interest Coverage Ratio is equal to or greater than (a) on the Closing Date and thereafter to but excluding the Ramp-Up Test Date, 100%, (b) thereafter to but excluding the Ramp-Up Completion Date, 105%, and (c) thereafter, 110%.

"Ramp-Up Test Date" (i) any date that is the earlier of (a) the 60th day (or if such day is not a Business Day, the immediately following Business Day) following the Closing Date and (b) the date on which the Issuer shall have purchased, or entered into binding agreements to purchase, Collateral Debt Securities having an aggregate principal balance, together with the aggregate principal balance of all Eligible Investments purchased with Principal Proceeds (excluding Uninvested Proceeds deemed to be Principal Proceeds), at least equal to U.S.\$495,000,000; and (ii) the Ramp-Up Completion Date.

Form, Denomination, Registration and Transfer

General

(i) Regulation S Notes, which will be sold to persons that are not U.S. Persons in offshore transactions in accordance with Regulation S, will be represented by one or more permanent Regulation S Global Notes in definitive, fully registered form, without interest

coupons, and deposited with the Trustee as custodian for, and registered in the name of, The Depository Trust Company ("DTC") or its nominee, initially for the accounts of Euroclear and Clearstream, Luxembourg. By acquisition of a beneficial interest in a Regulation S Global Note, any purchaser thereof will be deemed to represent that (a) it is not a U.S. Person and is purchasing such beneficial interest for its own account and not for the account or benefit of a U.S. Person and (b) if in the future it decides to transfer such beneficial interest, it will transfer such interest only to a person that is not a U.S. Person in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Global Note (or beneficial interest therein). Beneficial interests in each Regulation S Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.

(ii) Restricted Notes, which will be initially offered by the Initial Purchaser in reliance upon an exemption from the registration requirements of the Securities Act pursuant to the Rule 144A, will be represented by one or more Restricted Global Notes in fully registered form, without interest coupons, and deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee. Interests in Restricted Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

(iii) The Notes are subject to the restrictions on transfer set forth herein under "Transfer Restrictions".

(iv) Owners of beneficial interests in Regulation S Global Notes and Restricted Global Notes will be entitled or required, as the case may be, under certain limited circumstances described below, to receive physical delivery of certificated Notes ("Definitive Notes") in fully registered, definitive form. No owner of a beneficial interest in a Regulation S Global Note will be entitled to receive a Definitive Note unless such person provides written certification that such Definitive Note is beneficially owned by a person that is not a U.S. Person and is not held for the account or benefit of a U.S. Person. No owner of a beneficial interest in a Restricted Global Note will be entitled to receive a Definitive Note unless such person provides written certification that such Definitive Note is beneficially owned by a U.S. Person or in the United States in reliance upon an exemption from the registration requirements of the Securities Act. The Notes are not issuable in bearer form.

(v) Pursuant to the Indenture, JPMorgan Chase Bank has been appointed and will serve as the registrar with respect to the Notes (in such capacity, the "Note Registrar") and will provide for the registration of the Notes and the registration of transfers of Notes in the register maintained by it (the "Note Register"). JPMorgan Chase Bank has also been appointed as a transfer agent with respect to the Notes (in such capacity, the "Transfer Agent").

(vi) The Notes will be issuable in a minimum denomination of U.S.\$250,000 and will be offered only in such minimum denomination or an integral multiple of U.S.\$1,000 in excess thereof, except that interests in a Note represented by a Regulation S Global Note will be offered in a minimum denomination of U.S.\$100,000 or an integral multiple of U.S.\$1,000 in excess thereof;

(vii) After issuance, (i) a Note may fail to be in compliance with the minimum denomination requirement stated above as a result of the repayment of principal thereof in accordance with the Priority of Payments and (ii) Class C Notes may fail to be in an amount

which is an integral multiple of U.S.\$1,000 due to the addition to the principal amount thereof of Class C Deferred Interest.

Global Notes

(i) So long as the depository for a Global Note, or its nominee, is the registered holder of such Global Note, such depository or such nominee, as the case may be, will be considered the absolute owner or holder of such Regulation S Note or Restricted Note, as the case may be, represented by such Global Note for all purposes under the Indenture and the Notes and members of, or participants in, the depository (the "Participants") as well as any other persons on whose behalf Participants may act (including Euroclear and Clearstream, Luxembourg and account holders and participants therein) will have no rights under the Indenture or under a Note. Owners of beneficial interests in a Global Note will not be considered to be the owners or holders of any Note under the Indenture or the Notes. In addition, no beneficial owner of an interest in a Global Note will be able to exchange or transfer that interest, except in accordance with the applicable procedures of the depository and (in the case of a Regulation S Global Note) Euroclear or Clearstream, Luxembourg (in addition to those under the Indenture), in each case to the extent applicable (the "Applicable Procedures").

(ii) Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, Luxembourg, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Euroclear and Clearstream, Luxembourg will hold interests in Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in such Regulation S Note in customers' securities accounts in the depositories' names on the books of DTC. Investors may hold their interests in a Restricted Global Note directly through DTC, if they are participants in such system, or indirectly through organizations which are participants in such system.

(iii) Payments of the principal of, and interest on, an individual Global Note registered in the name of a depository or its nominee will be made to the depository or its nominee, as the case may be, as the registered owner of the Global Note. None of the Issuer, the Trustee, the Note Registrar, the Preference Share Paying Agent and any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(iv) With respect to the Global Notes, the Issuer expects that the depository for any Global Note or its nominee, upon receipt of any payment of principal of or interest on such Global Note, will immediately credit the accounts of Participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of the depository or its nominee. The Issuer also expects that payments by Participants to owners of beneficial interests in such Global Note held through such Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the name of nominees for such customers. Such payments will be the responsibility of such Participants.

Definitive Notes

Interests in a Regulation S Note or a Restricted Note represented by a Global Note will be exchangeable or transferable, as the case may be, for a Regulation S Note or a Restricted

Note, respectively, that is a Definitive Note if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depository for such Note, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depository is not appointed by the Issuer within 90 days, (c) the transferee of an interest in such Global Note is required by law to take physical delivery of securities in definitive form or (d) the transferee is otherwise unable to pledge its interest in a Global Note. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause Definitive Notes bearing an appropriate legend (a "Legend") regarding restrictions on transfer to be delivered. Upon the transfer, exchange or replacement of Definitive Notes bearing a Legend, or upon specific request for removal of a Legend on a Note, the Co-Issuers shall deliver through the Trustee or any Paying Agent (other than the Preference Share Paying Agent) to the holder and the transferee, as applicable, one or more Definitive Notes in certificated form corresponding to the principal amount of Definitive Notes surrendered for transfer, exchange or replacement that bear such Legend, or will refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of U.S. counsel, as may reasonably be required by the Issuer that neither the Legend nor the restrictions on transfer set forth therein is required to ensure compliance with the provisions of the Securities Act or the Investment Company Act. Definitive Notes will be exchangeable or transferable for interests in other Definitive Notes as described below.

Transfer and Exchange of Note

(i) Transfers by a holder of a beneficial interest in a Regulation S Global Note to a transferee who takes delivery of such interest through a Restricted Global Note will be made only in accordance with the Applicable Procedures and upon receipt by the Note Registrar of written certifications from the transferor of such beneficial interest in the form provided in the Indenture to the effect that, among other things, such transfer is being made (a) to a person whom the transferor reasonably believes is a Qualified Institutional Buyer to whom notice is given that the transfer is being made in reliance on Rule 144A, (b) to a Qualified Purchaser and (c) in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and from the transferee in the form provided for in the Indenture. Without limiting the foregoing, no Class A-2A Note (or interest therein) may be transferred, and neither the Trustee nor the Note Registrar will recognize any such transfer, except to a transferee that executes and delivers a purchaser letter in substantially the form attached as an exhibit to the Class A-2A Notes Supplement. Exchanges or transfers by a holder of a Note represented by a Definitive Note to a transferee who takes delivery of such Note through a Restricted Global Note will be made no later than 10 days after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred only in accordance with the Applicable Procedures, and, if applicable, upon receipt by the Note Registrar of a written certification from the transferor in the form provided in the Indenture.

The holder of a beneficial interest in a Regulation S Global Note may transfer such interest to a transferee who takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Note without the provision of written certification. Any such transfer may only be made to a person that is not a U.S. Person and that is not acquiring such beneficial interest for the account or benefit of a U.S. Person and any such transfer may only be effected in an offshore transaction in accordance with Regulation S and only in accordance with the Applicable Procedures. Any such transferee must be able to make the representations set forth under "Transfer Restrictions".

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner of a Note (or any interest therein) (A) is a U.S. Person and (B) is not both a Qualified Institutional Buyer and also a Qualified Purchaser, then either of the Co-Issuers may require, by notice to such Holder, that such Holder sell all of its right, title and interest to such Note (or interest therein) to a person that is both a Qualified Institutional Buyer and a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by the Trustee in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market) to a person that certifies to the Trustee, the Co-Issuers and the Collateral Manager, in connection with such transfer, that such person is both a Qualified Institutional Buyer and a Qualified Purchaser and (ii) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

(ii) Transfers by a holder of a beneficial interest in a Restricted Global Note to a transferee who takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Note will be made only (a) in accordance with the Applicable Procedures and (b) upon receipt by the Note Registrar of written certification from each of the transferor and the transferee in the form provided in the Indenture to the effect that, among other things, such transfer is being made to a person that is not a U.S. Person and that is not acquiring such beneficial interest for the account or benefit of a U.S. Person and that such transfer is being effected in an offshore transaction in accordance with Regulation S and in accordance with all other applicable securities laws of any relevant jurisdiction. Exchanges or transfers by a holder of a Note represented by a Definitive Note to a transferee who takes delivery of such Note through a Regulation S Global Note will be made no later than 10 days after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred only in accordance with the Applicable Procedures, and upon receipt by the Note Registrar of a written certification from the transferor in the form provided in the Indenture. However, a transferee of a beneficial interest in a Class A-2 Note in the form of a Restricted Global Note will be required to comply with the certification requirements described in the Class A-2 Notes Supplement.

An owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification if the transferee is a Qualified Institutional Buyer and a Qualified Purchaser.

(iii) Transfers between Participants in DTC will be effected in the ordinary way in accordance with the Applicable Procedures and will be settled in immediately available funds. Transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

(iv) Notes in the form of Definitive Notes may be exchanged or transferred in whole or in part in the principal amount of authorized denominations by surrendering such Definitive Notes at the office of the Note Registrar or any Transfer Agent with a written instrument of transfer as provided in the Indenture. In addition, if the Definitive Notes being exchanged or transferred contain a Legend, additional certifications to the effect that such exchange or transfer is in compliance with the restrictions contained in such Legend, may be required. With respect to any transfer of a portion of a Definitive Note, the transferor will be entitled to receive,

at any aforesaid office, a new Definitive Note representing the principal amount retained by the transferor after giving effect to such transfer. Definitive Notes issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the applicable Transfer Agent.

(v) No service charge will be made for exchange or registration of transfer of any Note but the Trustee may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith and expenses of delivery (if any) not made by regular mail.

(vi) Definitive Notes issued upon any exchange or registration of transfer of securities shall be valid obligations of the Co-Issuers, evidencing the same debt, and entitled to the same benefits, as the Definitive Notes surrendered upon exchange or registration of transfer.

(vii) The Note Registrar will effect transfers of Global Notes and, along with the Transfer Agents, will effect exchanges and transfers of Definitive Notes. In addition, the Note Registrar will keep in the Note Register records of the ownership, exchange and transfer of any Note in definitive form.

(viii) The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, any transfer of beneficial interests in a Note represented by a Global Note to such persons may require that such interests in a Global Note be exchanged for Definitive Notes. Because DTC can only act on behalf of Participants, which in turn act on behalf of indirect Participants and certain banks, the ability of a person having a beneficial interest in a Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may require that such interest in a Global Note be exchanged for Definitive Notes. Interests in a Global Note will be exchangeable for Definitive Notes only as described above.

(ix) Subject to compliance with the transfer restrictions applicable to the Notes described above and under "Transfer Restrictions", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, Luxembourg, as the case may be, will if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in a Regulation S Global Note in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream, Luxembourg participants and Euroclear participants may not deliver instructions directly to the depositories of Euroclear or Clearstream, Luxembourg.

(x) Because of time zone differences, cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in a Regulation S Global Note by or through a Euroclear or Clearstream, Luxembourg participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day following settlement in DTC.

(xi) DTC has advised the Co-Issuers that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange as described above) only at the direction of one or more Participants to whose account with the DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate outstanding principal amount of the Notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the Global Notes for Definitive Notes, legended as appropriate, which it will distribute to its Participants.

(xii) DTC has advised the Co-Issuers as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

(xiii) Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in Global Notes among participants of DTC, 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 Co-Issuer and the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective Participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

(xiv) The Issuer may impose additional transfer restrictions to comply with the USA PATRIOT Act and any other applicable anti-money laundering laws and regulations, to the extent it is applicable to the Issuer and, in such event, each holder of Notes will be required to comply with such transfer restrictions.

No Gross-Up

All payments under the Notes will be made without any deduction or withholding for or on the 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 any deduction or withholding is required, the Co-Issuers will not be obligated to pay any additional amounts in respect of such withholding or deduction.

The Indenture

The following summary describes certain provisions of the Indenture. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture.

Events of Default

An "Event of Default" is defined in the Indenture as:

(i) a default in the payment of any interest (A) on any Class A Note or Class B Note or (B) if there are no Class A Notes or Class B Notes outstanding, on any Class C Note, when the same becomes due and payable, in each case which default continues for a period of three Business Days (or, in the case of a payment default resulting solely from an administrative error or omission by the Trustee, the Administrator, the Paying Agent or the Note Registrar, such default continues for a period of seven days);

(ii) a default in the payment of principal of any Note when the same becomes due and payable at its Stated Maturity or Redemption Date (or, in the case of a payment default resulting solely from an administrative error or omission by the Trustee, the Administrator, the Paying Agent or the Note Registrar, such default continues for a period of seven days);

(iii) the failure on any Distribution Date to disburse amounts available in the Interest Collection Account or Principal Collection Account in accordance with the order of priority set forth above under "—Priority of Payments" (other than a default in payment described in clause (i) or (ii) above), which failure continues for a period of two Business Days (or, in the case of a failure resulting solely from an administrative error or omission by the Trustee, the Administrator, the Paying Agent or the Note Registrar, such default continues for a period of seven days);

(iv) either of the Co-Issuers or the pool of Collateral becomes an investment company required to be registered under the Investment Company Act;

(v) a default in the performance, or breach, of any other covenant or other agreement (other than any covenant to meet the Collateral Quality Tests or the Coverage Tests) of the Issuer or the Co-Issuer under the Indenture or any representation or warranty of the Issuer or the Co-Issuer made in the Indenture or in any certificate or other writing delivered pursuant thereto or in connection therewith proves to be incorrect in any material respect when made, and the continuation of such default or breach for a period of 30 days (or, if such default, breach or failure has an adverse effect on the validity, perfection or priority of the security interest granted under the Indenture, 15 days) after any of the Issuer, the Co-Issuer or the Collateral Manager has actual knowledge thereof or after notice thereof to the Issuer and the Collateral Manager by the Trustee or to the Issuer, the Collateral Manager and the Trustee by the holders of at least 25% in aggregate outstanding principal amount of Notes of the Controlling Class;

(vi) certain events of bankruptcy, insolvency, receivership or reorganization of either of the Co-Issuers (as set forth in the Indenture);

(vii) one or more final judgments being rendered against either of the Co-Issuers that exceed, in the aggregate, U.S.\$1,000,000 and which remain unstayed, undischarged and unsatisfied for 30 days after such judgment(s) becomes nonappealable, unless adequate funds have been reserved or set aside for the payment thereof, and unless (except as otherwise specified in writing by each Rating Agency) the Rating Condition shall have been satisfied; or

(viii) the failure of the Net Outstanding Portfolio Collateral Balance on any Determination Date to be at least equal to the aggregate outstanding amount of the Class A Notes and the Class B Notes on such Determination Date.

If either of the Co-Issuers obtains knowledge, or has reason to believe, that a default or an Event of Default has occurred and is continuing, such Co-Issuer is obligated to promptly notify the Trustee, the Collateral Manager, the Noteholders, the Preference Share Paying Agent, the Hedge Counterparty and each Rating Agency of such default or Event of Default in writing.

If an Event of Default occurs and is continuing (other than an Event of Default described in clause (vi) under "Events of Default" above), the Trustee (at the direction of the holders of a majority in aggregate outstanding principal amount of the Controlling Class) and otherwise holders of a majority in aggregate outstanding principal amount of the Controlling Class, may declare the principal of and accrued and unpaid interest on all of the Notes to be immediately due and payable. If an Event of Default described in clause (vi) above under "Events of Default" occurs, such an acceleration will occur automatically and without any further action. Notwithstanding the foregoing, if the sole Event of Default is an Event of Default described in clause (i) or clause (ii) above under "Events of Default" with respect to a default in the payment of any principal of or interest on the Notes of a Class other than the Controlling Class, neither the Trustee nor the holders of such non-Controlling Class will have the right to declare such principal and other amounts to be immediately due and payable. Any declaration of acceleration may under certain circumstances be rescinded by the holders of at least a majority in aggregate outstanding principal amount of Notes of the Controlling Class. The "Controlling Class" will be the Class A-1 Notes or, if there are no Class A Notes outstanding, the Class A-2 Notes or, if there are no Class A-2 Notes outstanding, the Class B Notes or, if there are no Class A-1 Notes, Class A-2 Notes or Class B Notes outstanding, the Class C Notes.

If an Event of Default occurs and is continuing when any Note is outstanding, the Trustee will retain the Collateral intact and collect all payments in respect of the Collateral and continue making payments in the manner described under "—Priority of Payments" unless:

(A) the Trustee determines that the anticipated proceeds of a sale or liquidation of the Collateral (after deducting the reasonable expenses of such sale or liquidation) would be sufficient to discharge in full the amounts then due and unpaid on the Notes for principal and interest (including Class C Deferred Interest, Defaulted Interest and interest on Defaulted Interest, if any), due and unpaid administrative expenses as limited by clauses (1) and (11) under "Priority of Payments—Interest Proceeds", any accrued and unpaid amounts (including termination payments) payable by the Issuer pursuant to the Hedge Agreement (other than any Subordinate Hedge Termination Payment), the Preference Share Stated Balance and all accrued and unpaid Preference Share Stated Coupon; or

(B) the holders of at least 66-2/3% in Aggregate Outstanding Amount of each Class of Notes, voting as a separate Class, and the holders of more than 50% of the aggregate liquidation preference of the Preference Shares, voting as a single class, and (if a termination payment other than a Subordinate Hedge Termination Payment would be owing to the Hedge Counterparty upon early termination of the Hedge Agreement) the Hedge Counterparty, direct the sale and liquidation of the Collateral.

The holders of a majority in aggregate outstanding principal amount of Notes of the Controlling Class will have the right to direct the Trustee in the conduct of any proceedings for any remedy available to the Trustee, *provided* that (i) such direction will not conflict with any rule of law or the Indenture; (ii) the Trustee may take any other action not inconsistent with such direction; (iii) the Trustee has been provided with indemnity satisfactory to it (and the Trustee need not take any action that it determines might involve it in liability unless it has received such indemnity against such liability); and (iv) any direction to undertake a sale of the Collateral may be made only as described in the preceding paragraph.

Pursuant to the Indenture, as security for the payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer, the Issuer will grant the Trustee a lien on the Collateral, which lien is senior to the lien of the Secured Parties. The Trustee's lien will be exercisable by the Trustee only if the Notes have been declared due and payable following an Event of Default and such acceleration has not been rescinded or annulled.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request of any holders of any of the Notes, unless such holders have offered to the Trustee reasonable security or indemnity.

The holders of a majority in aggregate outstanding principal amount of Notes of the Controlling Class, acting together with the Hedge Counterparty, may, prior to the time a judgment or decree for the payment of money due has been obtained by the Trustee, waive any past default on behalf of the holders of all the Notes and its consequences, except a default in the payment of the principal of any Note or in the payment of interest (including any Defaulted Interest or interest thereon) on the Class A-1 Notes or, after the Class A-1 Notes have been paid in full, the Class A-2 Notes or, after the Class A-2 Notes have been paid in full, the Class B Notes or, after the Class B Notes have been paid in full, the Class C Notes, or in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of the holder of each outstanding Note affected thereby, or arising as a result of an Event of Default described in clause (vi) above under "Events of Default".

No holder of a Note will have the right to institute any proceeding with respect to the Indenture unless (i) such holder previously has given to the Trustee written notice of an Event of Default, (ii) except in certain cases of a default in the payment of principal or interest, the holders of at least 25% in aggregate outstanding principal amount of the Notes of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such holders have offered the Trustee reasonable indemnity, (iii) the Trustee has for 30 days failed to institute any such proceeding and (iv) except in certain cases of a default in the payment of principal or interest, no direction inconsistent with such written request has been given to the Trustee during such 30-day period by the holders of a majority in aggregate outstanding principal amount of the Notes of the Controlling Class.

In determining whether the holders of the requisite percentage of Notes have given any direction, notice, consent or waiver, (i) Notes owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding, and (ii) in relation to any assignment or termination of any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any right to remove the Collateral Manager or terminate the Collateral Management Agreement or approve or object to a Replacement Officer), or any amendment or other modification of the

Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager, Notes owned by the Collateral Manager or any of its Affiliates, or by any accounts managed by them with discretionary authority, shall be disregarded and deemed not to be outstanding. The Collateral Manager and its Affiliates will be entitled to vote Notes held by them, and by accounts managed by them, with respect to all matters other than those described in the foregoing clause (ii). The term "Collateral Manager" for purposes of this paragraph includes any successor or successors to Declaration.

Notices

Notices to the Noteholders will be given by first-class mail, postage prepaid, to the registered Noteholders at their address appearing in the Note Register. In addition, for so long as any Offered Securities are listed on the Irish Stock Exchange and the rules of such exchange so require, notice will also be given to the Company Announcements Office of the Irish Stock Exchange.

Modification of the Indenture

With the consent of (x) the holders of not less than a majority of each Class adversely affected thereby and a Majority-in-Interest of Preference Shareholders (if the Preference Shares are adversely affected thereby) and (y) the consent of the Hedge Counterparty (if adversely affected thereby), the Trustee and Co-Issuers may enter into one or more indentures to add any provisions to, or change in any manner or eliminate any of the provisions of, the Indenture or modify in any manner the rights of the holders of the Notes of such Class or the Preference Shares or the Hedge Counterparty, as the case may be, under the Indenture. Unless notified by holders of a majority in aggregate outstanding principal amount of any Class of Notes, a Majority-in-Interest of Preference Shareholders or the Hedge Counterparty that such Class of Notes, the Preference Shares or the Hedge Counterparty, as the case may be, will be adversely affected, the Trustee may, consistent with the written advice of counsel, determine whether or not such Class of Notes, the Preference Shares or the Hedge Counterparty would be adversely affected by such change (after giving notice of such change to the holders of such Class of Notes, the Preference Shareholders and the Hedge Counterparty). Such determination shall be conclusive and binding on all present and future Noteholders, Preference Shareholders and the Hedge Counterparty.

Notwithstanding the foregoing, the Trustee may not enter into any supplemental indenture without the consent of each holder of each outstanding Note of each Class and each Preference Shareholder (which consent shall be evidenced by an officer's certificate of the Issuer certifying that such consent has been obtained) and the Hedge Counterparty (if adversely affected thereby) if such supplemental indenture (i) changes the Stated Maturity of the principal of or the due date of any installment of interest on any Note, reduces the principal amount thereof or the rate of interest thereon, or the redemption price with respect thereto, changes the earliest date on which the Issuer may redeem any Note, changes the provisions of the Indenture relating to the application of proceeds of any Collateral to the payment of principal of or interest on the Notes, changes any place where, or the coin or currency in which, any Note or the principal thereof or interest thereon is payable, or impairs the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the applicable redemption date), (ii) reduces the percentage in aggregate outstanding principal amount of holders of Notes of each Class whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder or their consequences,

(iii) impairs or adversely affects the Collateral pledged under the Indenture except as otherwise permitted thereby, (iv) permits the creation of any lien ranking prior to or on a parity with the lien created by the Indenture with respect to any part of the Collateral or terminates such lien on any property at any time subject thereto or deprives the holder of any Note of the security afforded by the lien created by the Indenture, (v) reduces the percentage of the aggregate outstanding principal amount of holders of Notes of each Class whose consent is required to request that the Trustee preserve the Collateral pledged under the Indenture or rescind the Trustee's election to preserve the Collateral or to sell or liquidate the Collateral pursuant to the Indenture, (vi) modifies any of the provisions of the Indenture with respect to supplemental indentures requiring the consent of Noteholders except to increase the percentage of outstanding Notes whose holders' consent is required for any such action or to provide that other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Note affected thereby, (vii) modifies the definition of the term "Outstanding" or the subordination provisions of the Indenture, (viii) changes the permitted minimum denominations of any Class of Notes or (ix) modifies any of the provisions of the Indenture in such a manner as to affect the calculation of the amount of any payment of interest on or principal of any Note or the right of the holders of Notes to the benefit of any provisions for the redemption of such Notes contained therein. The Trustee may not enter into any supplemental indenture unless the Rating Condition shall have been satisfied with respect to such supplemental indenture.

The Co-Issuers and the Trustee may also enter into supplemental indentures without obtaining the consent of holders of any Notes, the Preference Shareholders or the Hedge Counterparty in order to, among other things, (i) evidence the succession of any person to the Issuer or the Co-Issuer and the assumption by such successor of the covenants in the Indenture and the Notes, (ii) add to the covenants of the Co-Issuers or the Trustee for the benefit of the holders of all of the Notes or to surrender any right or power conferred upon the Co-Issuers, (iii) convey, transfer, assign, mortgage or pledge any property to or with the Trustee, (iv) evidence and provide for the acceptance of appointment by a successor trustee and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee, (v) correct or amplify the description of any property at any time subject to the lien created by the Indenture, or to better assure, convey and confirm unto the Trustee any property subject or required to be subject to the lien created by the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations) or to subject to the lien created by the Indenture any additional property, (vi) modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or to enable the Co-Issuers to rely upon any less restrictive exemption from registration under the Securities Act or the Investment Company Act or to remove restrictions on resale and transfer to the extent not required thereunder, (vii) correct any inconsistency, defect or ambiguity in the Indenture, (viii) obtain ratings on one or more Classes or Series of the Notes from any Rating Agency, (ix) make administrative changes as the Co-Issuers deem appropriate and that do not materially and adversely affect the interests of any Noteholder, Preference Shareholder or Hedge Counterparty, (x) avoid imposition of tax on the net income of the Issuer or the Co-Issuer or of withholding tax on any payment to the Issuer or the Co-Issuer or to avoid the Issuer or Co-Issuer being required to register as an investment company under the Investment Company Act or (xi) to accommodate the issuance of any Class or Series of Notes as Definitive Notes; *provided* that, in each such case, such supplemental indenture would not materially and adversely affect any holder of Notes, any Preference Shareholder or the Hedge Counterparty. Unless notified by holders of a majority in aggregate outstanding principal amount of Notes of any Class, a Majority-in-Interest of Preference Shareholders or the Hedge Counterparty that such Class, the Preference Shareholders or the

Hedge Counterparty will be adversely affected, the Trustee shall obtain, and be entitled to rely upon, an opinion of counsel as to whether the interests of any holder of Notes or the Hedge Counterparty would be materially and adversely affected by any such supplemental indenture (after giving notice of such change to each holder of Notes and the Hedge Counterparty). The Trustee may not enter into any supplemental indenture described in clause (vi) or (vii) of this paragraph without the written consent of the Collateral Manager. In addition, the Trustee may not enter into any supplemental indenture without the written consent of the Collateral Manager if such supplemental indenture alters the rights or obligations of the Collateral Manager in any respect, and the Collateral Manager will not be bound by any such supplemental indenture unless the Collateral Manager has consented thereto. The Trustee may not enter into any supplemental indenture unless the Rating Condition shall have been satisfied with respect to such supplemental indenture.

Modification of Certain Other Documents

Prior to entering into any amendment to the Collateral Management Agreement, the Collateral Administration Agreement or the Hedge Agreement, the Issuer is required by the Indenture to obtain the written confirmation of each Rating Agency that the entry by the Issuer into such amendment satisfies the Rating Condition. Prior to entering into any waiver in respect of any of the foregoing agreements, the Issuer is required to provide each Rating Agency, the Hedge Counterparty and the Trustee with written notice of such waiver. The amendment to and waiver of provisions of the Collateral Management Agreement are also subject to additional restrictions as described herein under "Collateral Management—The Collateral Management Agreement".

The Hedge Counterparty will be an express third party beneficiary of the Indenture.

Consolidation, Merger or Transfer of Assets

Except under the limited circumstances set forth in the Indenture, neither the Issuer nor the Co-Issuer may consolidate with, merge into, or transfer or convey all or substantially all of its assets to, any other corporation, partnership, trust or other person or entity.

Petitions for Bankruptcy

The Indenture provides that the holders of the Notes (other than the then Controlling Class of Notes) agree not to cause the filing of a petition for winding up or a petition in bankruptcy against the Issuer or the Co-Issuer before one year and one day have elapsed since the final payments to the holders of the then Controlling Class of Notes or, if longer, the applicable preference period then in effect.

Satisfaction and Discharge of Indenture

The Indenture will be discharged with respect to the Collateral upon delivery to the Trustee for cancellation of all of the Notes, or, subject to certain limitations (including the obligation to pay principal and interest, including Defaulted Interest and interest on Defaulted Interest), upon deposit with the Trustee of funds sufficient for the payment or redemption of the Notes and the payment by the Co-Issuers of all other amounts due under the Notes, the Indenture, the Hedge Agreement, the Collateral Administration Agreement, the Administration Agreement and the Collateral Management Agreement.

Trustee

JPMorgan Chase Bank will be the Trustee under the Indenture. The Co-Issuers, the Collateral Manager and their respective affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee is solely the obligation of the Co-Issuers. The Trustee and its affiliates may receive compensation in connection with the investment of trust assets in certain Eligible Investments as provided in the Indenture. Eligible Investments may include investments for which the Trustee and/or its affiliates provide services. The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. Pursuant to the Indenture, the Issuer has granted to the Trustee a lien senior to that of the Noteholders to secure payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer under the Indenture (subject to the dollar limitations set forth in the Priority of Payments with respect to any Distribution Date), which lien the Trustee is entitled to exercise only under certain circumstances. The Trustee may resign at any time by giving written notice thereof to the Co-Issuers, the Noteholders, the Collateral Manager, the Hedge Counterparty, the Preference Share Paying Agent and each Rating Agency. The Trustee may be removed (1) at any time by a majority of any Class of Notes, (2) at any time when an Event of Default shall have occurred and be continuing or (3) when a successor Trustee has been appointed pursuant to the provisions set forth in the Indenture; *provided that*, no resignation or removal of the Trustee will become effective until the acceptance of appointment by a successor Trustee. In the Indenture, the Trustee will agree not to cause the filing of a petition for winding up or a petition in bankruptcy against the Co-Issuers for nonpayment to the Trustee of amounts payable thereunder until at least one year and one day, or if longer, the applicable preference period then in effect, after the payment in full of all of the Notes.

Tax Characterization of the Notes

The Issuer intends to treat the Notes as indebtedness of the Issuer for U.S. Federal, state and local income tax purposes. The Indenture will provide that each holder, by accepting a Note, agrees to such treatment and agrees to report all income (or loss) in accordance with such characterization.

Governing Law

The Indenture, the Securities Purchase Agreement, the Collateral Administration Agreement, the Notes, the Hedge Agreement and the Collateral Management Agreement will be governed by, and construed in accordance with, the law of the State of New York.

DESCRIPTION OF THE PREFERENCE SHARES

The Preference Shares will be issued pursuant to the Issuer Charter and in accordance with a Preference Share Paying Agency Agreement (the "Preference Share Paying Agency Agreement") between JPMorgan Chase, as Preference Share Paying Agent (in such capacity, the "Preference Share Paying Agent") and the Issuer and will be subject to the Subscription Agreements. The following summary describes certain provisions of the Preference Shares, the Issuer Charter, the Preference Share Paying Agency Agreement and the Subscription Agreements. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Issuer Charter, the Preference Share Paying Agency Agreement and the Subscription Agreements. After the closing, copies of the Issuer Charter, the Preference Share Paying Agency Agreement and the form of Subscription Agreement may be obtained by prospective investors upon request in writing to the Preference Share Paying Agent at 600 Travis Street, 50th Floor, JPMorgan Chase Tower, Houston, Texas 77002, Attention: Institutional Trust Services – Independence V CDO, Ltd.

Status

The Issuer is authorized to issue 19,100 Series 1 Preference Shares, par value U.S.\$0.01 per share and 5,500 Series 2 Preference Shares, par value U.S.\$0.01 per share. The Series 1 Preference Shares and Series 2 Preference Shares have a liquidation preference of U.S.\$1,000 per share.

Distributions

Until the Notes and certain other amounts are paid in full, Interest Proceeds will be released from the lien of the Indenture for payment to the Preference Share Paying Agent only after the payment of interest on the Notes and, in certain circumstances, principal due in respect of the Notes and the payment of certain other amounts in accordance with the Priority of Payments. Any Interest Proceeds permitted to be released from the lien of the Indenture and paid to the Preference Share Paying Agent will be distributed to the Preference Shareholders on each Distribution Date. Until the Notes and certain other amounts have been paid in full, Principal Proceeds are not permitted to be released from the lien of the Indenture and will not be available to make distributions in respect of the Preference Shares. See "Description of the Notes—Interest Proceeds" and "—Principal Proceeds" and "Security for the Notes".

Subject to provisions of The Companies Law (2003 Revision) of the Cayman Islands governing the declaration and payment of dividends, after the Notes and certain other amounts have been paid in full, Interest Proceeds and Principal Proceeds remaining after all other applications under the Priority of Payments will be released from the lien of the Indenture in accordance with the Priority of Payments and paid to the Preference Share Paying Agent on each Distribution Date for distribution to the Preference Shareholders on such Distribution Date. Cayman Islands law provides that dividends may only be paid by the Issuer if the Issuer has funds lawfully available for such purpose. Dividends may be paid out of profit and out of the Issuer's share premium account (which includes subscription monies in excess of the par value of each share); and the Issuer may pay dividends out of share premium; *provided* that the Issuer is solvent.

Distributions on any Preference Share will be made to the person in whose name such Preference Share is registered on the date which is 15 days prior to the applicable Distribution

Date (the "Record Date"). Payments will be made by wire transfer in immediately available funds to a Dollar account maintained by the holder thereof appearing in the Preference Share Register in accordance with wire transfer instructions received from such holder by the Preference Share Paying Agent on or before the Record Date or, if no wire transfer instructions are received by the Preference Share Paying Agent, by a Dollar check drawn on a bank in the United States. Final distributions or payments made in the course of a winding up will be made only against surrender of the certificate representing such Preference Shares at the office of the Preference Share Registrar.

Upon liquidation of the Issuer, distributions of property other than cash may be made under certain circumstances specified in the Issuer Charter. The amount of such non-cash distributions will be accounted for at the fair market value, as determined in good faith by the liquidator of the Issuer, of the property distributed. See "—The Issuer Charter—Dissolution; Liquidating Distributions".

If any of the Coverage Tests is not satisfied on any Determination Date related to any Distribution Date, funds that would otherwise be distributed to Preference Shareholders (subject to the payment of certain other amounts prior thereto) will be used instead to repay principal of the Notes sequentially in direct order of Seniority, to the extent and as described herein. In addition, if the Issuer is unable to obtain a Rating Confirmation from each Rating Agency by the 10th day following the Ramp-Up Completion Date, Interest Proceeds remaining after payment of interest on the Class B Notes will be used to redeem *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes and *fourth*, the Class C Notes, to the extent necessary to obtain a Rating Confirmation from each Rating Agency. See "Description of the Notes—Priority of Payments".

If on any Distribution Date Preference Shareholders have received distributions on the Preference Shares sufficient to achieve a Dividend Yield equal to 15.05% as of such Distribution Date, any excess amount of Interest Proceeds will be applied to pay principal of the Class C Notes until the Class C Notes are paid in full. See "—Priority of Payments—Interest Proceeds".

After the principal of the Class C Notes has been paid in full, Interest Proceeds shall be paid to the Preference Share Paying Agent for payment to the Preference Shareholders as a distribution of Interest Proceeds by way of dividend or distributions thereon in accordance with the Preference Share Documents.

Optional Redemption

On any Distribution Date on or after the Distribution Date on which the Notes have been paid in full, the Preference Shares may be redeemed (in whole but not in part) at the direction of a Majority-in-Interest of Preference Shareholders given not less than 45 days notice prior to such Distribution Date at a redemption price per share equal to (a) the proceeds from the liquidation of the assets of the Issuer minus the sum of (i) the costs and expenses of such liquidation, (ii) any amounts payable to the creditors of the Issuer, (iii) the amount required to establish adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer and (iv) a payment to the holders of the ordinary shares of the Issuer of an amount equal to U.S.\$1.00 per share divided by (b) the number of Preference Shares.

The Issuer Charter

The following summary describes certain provisions of the Issuer Charter. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Issuer Charter.

Notices

Notices to the Preference Shareholders will be given by first class mail, postage prepaid, to the registered holders of the Preference Shares at their address appearing in the Preference Share Register.

Voting Rights

Set forth below is a summary of certain matters with respect to which Preference Shareholders are entitled to vote. This summary is not meant to be an exhaustive list, and, subject to covenants made by each Preference Shareholder in the Subscription Agreements (in the case of Original Purchasers of the Preference Shares) and in the transfer certificates (in the case of transferees of the Preference Shares), the Issuer Charter and The Companies Law (2003 Revision) of the Cayman Islands afford Preference Shareholders of the Issuer the right to vote on matters in addition to those mentioned below.

Redemption of the Notes: On any Distribution Date occurring on the last day of, or after, the Substitution Period, the Notes may, subject to satisfaction of certain conditions described herein, be redeemed (in whole but not in part) at the direction of a Majority-in-Interest of Preference Shareholders, as described under "Description of the Notes—Optional Redemption and Tax Redemption".

Redemption of the Preference Shares: On any Distribution Date on or after the Distribution Date on which the Notes have been paid in full, the Preference Shares may be redeemed (in whole but not in part) at the direction of a Majority-in-Interest of Preference Shareholders, as described above under "Description of the Notes—Optional Redemption".

The Hedge Agreement: Subject to satisfaction of the Rating Condition with respect to such reduction, the Collateral Manager and a Majority-in-Interest of Preference Shareholders (acting together) may on any Distribution Date direct the Issuer to reduce the notional amount of any interest rate swap or cap outstanding under the Hedge Agreement. In the event of any such reduction, the Hedge Counterparty or the Issuer may be required to make a termination payment in respect of such reduction to the other party.

The Collateral Management Agreement: For a description of certain of the provisions of the Issuer Charter relating to the termination of the Collateral Management Agreement and the objection to the appointment of a successor Collateral Manager, see "The Collateral Management Agreement".

The Indenture: The Issuer is not permitted to enter into a supplemental indenture (other than a supplemental indenture that does not require the consent of Noteholders) without the consent of a Majority-in-Interest of Preference Shareholders if the Preference Shareholders are adversely affected thereby. The Issuer is not permitted to enter into a

supplemental indenture without the consent of Preference Shareholders whose Voting Percentages equal 100% of the Voting Percentages of all Preference Shareholders if such supplemental indenture would have the effect of (i) amending the manner in which the proceeds of the Collateral are applied on any Distribution Date (including by amending any provision of the Priority of Payments or the manner in which principal of and interest on any Class of Notes is calculated); (ii) extending the stated maturity of any Class of Notes or changing the date on which any distribution in respect of the Preference Shares is payable; (iii) changing the earliest date on which each Class of the Notes may be redeemed; (iv) impairing or adversely affecting the Collateral (except as otherwise expressly permitted by the Indenture); (v) permitting the creation of any lien ranking prior to or on a parity with the lien of the Indenture with respect to any part of the Collateral; or (vi) changing the voting percentages required for any action to be taken, or any consent or waiver to be given, by the Preference Shareholders.

Preference Share Paying Agency Agreement. The Issuer is not permitted to consent to any amendment of the Preference Share Paying Agency Agreement without the consent of Preference Shareholders whose Voting Percentages equal 100% of the Voting Percentages of all Preference Shareholders if such amendment would (i) reduce in any manner the amount of, or delay the timing of, or change the allocation of, the payment of any dividends or final distributions on the Preference Shares or (ii) reduce the voting percentage of Preference Shareholders required to consent to any amendment to the Preference Share Paying Agency Agreement that requires the consent of the Preference Shareholders. The Issuer and the Preference Share Paying Agent may also amend the Preference Share Paying Agency Agreement without obtaining the consent of any Preference Shareholders in order to effect any changes analogous to those specified with respect to any supplement to the Indenture that does not require the consent of holders of the Notes.

Modification of the Issuer Charter

As a general matter of Cayman Islands law, the Issuer Charter may be amended by a Special Resolution passed by the holders of the Ordinary Shares. However, the Issuer Charter provides that the rights attaching to the Preference Shares may only be varied with the consent in writing of the holders of all of the Preference Shares at such time.

Dissolution; Liquidating Distributions

The Directors of the Issuer currently intend, in the event that the Preference Shares are not redeemed at the option of a Majority-in-Interest of Preference Shareholders following the repayment in full of the Notes, to liquidate all of the Issuer's remaining investments in an orderly manner and distribute the proceeds of such liquidation to the Preference Shareholders. However, there can be no assurance that the Notes will be repaid before their Stated Maturity. See "Maturity, Prepayment and Yield Considerations" and "Risk Factors—Average Life and Prepayment Considerations".

The Issuer Charter provides that the Issuer will be wound up on the earliest to occur of (i) at any time on or after the date falling thirty-six years and two days after the Closing Date upon the passing of an ordinary resolution resolving to dissolve the Issuer, (ii) at any time after the sale or other disposition of all of the Issuer's assets, upon the passing of an ordinary resolution resolving to dissolve the Issuer, (iii) at any time after the Notes are paid in full, upon the passing of an ordinary resolution to dissolve the Issuer and (iv) on the date of a winding up

pursuant to the provisions of or as contemplated by The Companies Law of the Cayman Islands as then in effect.

As soon as practicable following the dissolution of the Issuer, its affairs will be wound up and its assets sold or distributed. Subject to the terms of the Indenture and Cayman Islands law, the assets of the Issuer shall be applied in the following order of priority:

- (1) *first*, to pay the costs and expenses of the winding up, liquidation and termination of the Issuer;
- (2) *second*, to creditors of the Issuer, in the order of priority provided by law, including fees payable to the Collateral Manager or its affiliates;
- (3) *third*, to establish reserves adequate to meet any and all contingent, unliquidated liabilities or obligations of the Issuer, *provided* that at the expiration of a period not exceeding three years after the final liquidation distribution, the balance of such reserves remaining after the payment of such contingencies or liabilities shall be distributed in the manner described herein;
- (4) *fourth*, to pay the Preference Shareholders a sum equal to U.S.\$1,000 per Preference Share;
- (5) *fifth*, to pay the holders of the ordinary shares the nominal amount paid up thereon and the sum of U.S.\$1.00 per ordinary share; and
- (6) *sixth*, to pay to the Preference Shareholders the balance remaining.

Consolidation, Merger or Transfer of Assets

Except under the limited circumstances set forth in the Issuer Charter and the Indenture, the Issuer may not consolidate with, merge into, or transfer or convey all or substantially all of its assets to, any other corporation, partnership, trust or other person or entity.

Petitions for Bankruptcy

Each Original Purchaser of Preference Shares will be required to covenant in a Subscription Agreement (and each transferee of Preference Shares will be required to covenant in a transfer certificate) that it will not cause the filing of a petition in bankruptcy against the Issuer before one year and one day have elapsed since the payment in full of the Notes or, if longer, the applicable preference period then in effect.

Governing Law

The Preference Share Paying Agency Agreement and the Subscription Agreements will be governed by, and construed in accordance with, the law of the State of New York. The Issuer Charter and the Preference Shares will be governed by, and construed in accordance with, the law of the Cayman Islands.

Certain Definitions

As used herein, the following definitions have the following respective meanings:

"Majority-in-Interest of Preference Shareholders" means, at any time, Preference Shareholders whose aggregate Voting Percentages at such time exceed 50% of all Preference Shareholders' Voting Percentages at such time.

"Special-Majority-in-Interest of Preference Shareholders" means, at any time, Preference Shareholders whose aggregate Voting Percentages at such time exceed 66 2/3% of all Preference Shareholders' Voting Percentages at such time.

"Voting Percentage" of a Preference Shareholder at any time means a percentage equal to the number of Preference Shares held by such Preference Shareholder at such time divided by the aggregate number of Preference Shares held by all Preference Shareholders at such time.

Form, Registration and Transfer

General

(i) The Preference Shares offered in the U.S. in reliance on Rule 144A ("Restricted Preference Shares") will be issued in definitive, fully registered, certificated form without interest coupons, registered in the name of the beneficial owner thereof. Each Original Purchaser of a Restricted Preference Share offered by the Issuer in the U.S. will be required to represent in a Subscription Agreement that it is both an Accredited Investor and a Qualified Purchaser acquiring the Restricted Preference Shares for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A).

(ii) (a) Regulation S Preference Shares, offered by the Issuer to persons that are not U.S. Persons outside the United States, will initially be represented by one or more permanent global certificates ("Regulation S Global Certificates") in definitive, fully registered form, and deposited with the Trustee as custodian for, and registered in the name of, The Depository Trust Company ("DTC") or its nominee, initially for the accounts of Euroclear and Clearstream, Luxembourg. By acquisition of a Regulation S Preference Share, any purchaser thereof will be required to represent in a transfer certificate (in the case of the Definitive Preference Shares) or be deemed to represent (in the case of the Regulation S Preference Shares) that (a) it is not a U.S. Person and is purchasing such Regulation S Preference Share for its own account and not for the account or benefit of a U.S. Person and (b) if in the future it decides to transfer such Regulation S Preference Share, it will transfer such Regulation S Preference Share to a person that is not a U.S. Person only in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Preference Share. Beneficial interests in each Regulation S Preference Share will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.

(b) Owners of beneficial interests in Regulation S Preference Shares will be entitled or required under certain limited circumstances described below, to receive physical delivery of certificated Preference Shares ("Definitive Preference Shares") in fully registered, definitive form. No owner of a beneficial interest in a Regulation S Preference Share will be entitled to receive a Definitive Preference Share unless such

person provides written certification that such Definitive Preference Share is beneficially owned by a person that is not a U.S. Person and is not held for the account or benefit of a U.S. Person. The Preference Shares are not issuable in bearer form.

(c) So long as the depository for Regulation S Preference Shares, or its nominee, is the registered holder of such Regulation S Preference Shares, such depository or such nominee, as the case may be, will be considered the absolute owner or holder of such Regulation S Preference Shares represented by such Regulation S Global Certificate for all purposes under the Issuer Charter and the Regulation S Preference Shares and members of, or participants in, the depository (the "Participants") as well as any other persons on whose behalf Participants may act (including Euroclear and Clearstream, Luxembourg and account holders and participants therein) will have no rights under the Issuer Charter or under a Regulation S Preference Share. Owners of beneficial interests in a Regulation S Global Certificate will not be considered to be the owners or holders of any Preference Share under the Issuer Charter or the Preference Shares. In addition, no beneficial owner of an interest in a Regulation S Preference Share will be able to exchange or transfer that interest, except in accordance with the applicable procedures of the depository and Euroclear or Clearstream, Luxembourg (in addition to those under the Preference Share Paying Agency Agreement), in each case to the extent applicable (the "Applicable Procedures").

(d) Investors may hold their interests in a Regulation S Preference Share directly through Euroclear or Clearstream, Luxembourg, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Euroclear and Clearstream, Luxembourg will hold interests in Regulation S Preference Shares on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in such Regulation S Preference Shares in customers' securities accounts in the depositories' names on the books of DTC.

(e) Distributions on a Regulation S Preference Share registered in the name of a depository or its nominee will be made to the depository or its nominee as the registered owner of the Regulation S Preference Share. None of the Issuer, the Trustee, the Note Registrar, the Preference Share Paying Agent, the Preference Share Registrar and any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Regulation S Preference Shares or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(f) With respect to the Regulation S Preference Shares, the Issuer expects that the depository for any Regulation S Preference Share or its nominee, upon receipt of any distribution on such Regulation S Preference Share, will immediately credit the accounts of Participants with payments in amounts proportionate to their respective beneficial interests in the number of such Regulation S Preference Share as shown on the records of the depository or its nominee. The Issuer also expects that payments by Participants to owners of beneficial interests in such Regulation S Preference Share held through such Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the name of nominees for such customers. Such payments will be the responsibility of such Participants.

(g) JPMorgan Chase Bank has been appointed the transfer agent with respect to the Preference Shares (the "Preference Share Transfer Agent").

(iii) The Preference Shares are subject to the restrictions on transfer set forth in this Offering Circular under "Transfer Restrictions". Preference Shares may not be transferred if, after giving effect to such transfer, the transferee (or, if the transferor retains any Preference Shares, the transferor) would own less than 100 Preference Shares.

(iv) The Preference Shares are not issuable in bearer form.

(v) Pursuant to the Preference Share Paying Agency Agreement, Walkers SPV Limited (on behalf of the Issuer) has been appointed and will serve as the registrar with respect to the Preference Shares (in such capacity, the "Preference Share Registrar") and will provide for the registration of Preference Shares and the registration of transfers of Preference Shares in the register maintained by it (the "Preference Share Register"). Written instruments of transfer are available at the office of the Preference Share Registrar.

(vi) The Issuer is authorized to issue 19,100 Series 1 Preference Shares, par value U.S.\$0.01 per share and 5,500 Series 2 Preference Shares, par value U.S.\$0.01 per share.

Definitive Preference Shares

Interests in a Regulation S Preference Share represented by a Regulation S Global Certificate will be exchangeable or transferable, as the case may be, for a Definitive Preference Share if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Preference Share, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depositary is not appointed by the Issuer within 90 days, (c) the transferee of an interest in such Regulation S Preference Share is required by law to take physical delivery of securities in definitive form or (d) the transferee is otherwise unable to pledge its interest in a Regulation S Preference Share. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause Definitive Preference Shares bearing an appropriate legend (a "Legend") regarding restrictions on transfer to be delivered. Upon the transfer, exchange or replacement of Definitive Preference Shares bearing a Legend, or upon specific request for removal of a Legend on a certificate representing the Preference Shares, the Co-Issuers shall deliver through the Trustee or any Paying Agent to the holder and the transferee, as applicable, one or more Definitive Preference Shares corresponding to the number of Preference Shares surrendered for transfer, exchange or replacement that bear such Legend, or will refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of U.S. counsel, as may reasonably be required by the Issuer that neither the Legend nor the restrictions on transfer set forth therein is required to ensure compliance with the provisions of the Securities Act or the Investment Company Act. Definitive Preference Shares will be exchangeable or transferable for interests in other Definitive Preference Shares as described below.

Transfer and Exchange

(i) (a) Transfers by a holder of a beneficial interest in a Regulation S Preference Share to a transferee who takes delivery of such interest through a Restricted Preference Share will be made only in accordance with the Applicable Procedures and upon receipt by the Preference Share Registrar of written certifications (1) from the transferor of such beneficial interest in the form provided in the Preference Share Paying Agency

Agreement to the effect that, among other things, such transfer is being made (x) to a person whom the transferor reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from Securities Act registration provided by Rule 144A or (y) to an Institutional Accredited Investor in accordance with another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), and in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and (2) from the transferee of such beneficial interest in the form provided for in the Preference Share Paying Agency Agreement to the effect that, among other things, the transferee (w) is either a Qualified Institutional Buyer or an Institutional Accredited Investor, (x) is either a Qualified Purchaser or is not a U.S. Person and (y) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle).

The holder of a beneficial interest in a Regulation S Global Preference Share may transfer such interest to a transferee who takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Preference Share without the provision of written certification. Any such transfer may only be made to a person that is not a U.S. Person and that is not acquiring such beneficial interest for the account or benefit of a U.S. Person and any such transfer may only be effected in an offshore transaction in accordance with Regulation S and only in accordance with the Applicable Procedures. Any such transferee must be able to make the representations set forth under "Transfer Restrictions", including the representation that it is not a Benefit Plan Investor or a Controlling Person. In addition, each transferee acquiring an interest in Regulation S Preference Shares will be required to execute and deliver to the Issuer, the Preference Share Paying Agent and the Collateral Manager a letter in the form attached as an exhibit to the Preference Share Paying Agency Agreement to the effect that such transferee will not transfer such interest except in compliance with the transfer restrictions set forth in the Preference Share Paying Agency Agreement (including the requirement that any subsequent transferee execute and deliver such letter as a condition to any subsequent transfer).

(b) Transfers by a holder of a Restricted Preference Share to a transferee who takes delivery in the form of a beneficial interest in a Regulation S Preference Share will be made only (a) in accordance with the Applicable Procedures, (b) upon receipt by the Issuer, the Collateral Manager and the Preference Share Registrar of written certification from each of the transferor and the transferee in the form provided in the Preference Share Paying Agency Agreement to the effect that, among other things, (i) such transfer is being made to a person that is not a U.S. Person and that is not acquiring such beneficial interest for the account or benefit of a U.S. Person and that such transfer is being effected in an offshore transaction in accordance with Regulation S and in accordance with all other applicable securities laws of any relevant jurisdiction and (ii) from the transferee only, it is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle). Exchanges or transfers by a holder of a Definitive Preference Share to a transferee who takes delivery of such Preference Share through a Regulation S Preference Share will be made no later than 10 days after the receipt by the Preference Share Registrar or Transfer Agent, as the case may be, of the Definitive Preference Shares to be so exchanged or transferred only in accordance with the

Applicable Procedures, and, if applicable, upon receipt by the Preference Share Registrar of a written certification from the transferor in the form provided in the Preference Share Paying Agency Agreement. In addition, each transferee acquiring an interest in Regulation S Preference Shares will be required to execute and deliver to the Issuer, the Preference Share Paying Agent and the Collateral Manager a letter in the form attached as an exhibit to the Preference Share Paying Agency Agreement to the effect that such transferee will not transfer such interest except in compliance with the transfer restrictions set forth in the Preference Share Paying Agency Agreement (including the requirement that any subsequent transferee execute and deliver such letter as a condition to any subsequent transfer).

Transfers by a holder of a Restricted Preference Share to a transferee who takes delivery of a Restricted Preference Share will be made only upon receipt by the Preference Share Registrar of written certifications from (1) the transferor in the form provided in the Preference Share Paying Agency Agreement to the effect that, among other things, such transfer is being made (i) to a person whom the transferor reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from Securities Act registration provided by Rule 144A or (ii) to an Institutional Accredited Investor in accordance with another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and (2) the transferee in the form provided for in the Preference Share Paying Agency Agreement to the effect that, among other things, the transferee (w) is either a Qualified Institutional Buyer or an Institutional Accredited Investor, (x) is either a Qualified Purchaser or is not a U.S. Person and (y) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle).

(c) Transfers between Participants in DTC will be effected in the ordinary way in accordance with the Applicable Procedures and will be settled in immediately available funds. Transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

(d) Definitive Preference Shares and Restricted Preference Shares may be exchanged or transferred in whole or in part in the principal amount of authorized denominations by surrendering such Definitive Preference Shares or Restricted Preference Shares, as the case may be, at the office of the Preference Share Registrar or the Transfer Agent with a written instrument of transfer as provided in the Preference Share Paying Agency Agreement. In addition, if the Definitive Preference Shares being exchanged or transferred contain a Legend, additional certifications to the effect that such exchange or transfer is in compliance with the restrictions contained in such Legend, may be required. With respect to any transfer of a portion of Definitive Preference Shares or Restricted Preference Shares, the transferor will be entitled to receive, at any aforesaid office, new Definitive Preference Shares or Restricted Preference Shares, as the case may be, representing the principal amount retained by the transferor after giving effect to such transfer. Definitive Preference Shares and

Restricted Preference Shares issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the Transfer Agent.

(e) The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, any transfer of beneficial interests in Regulation S Preference Shares to such persons may require that such interests in Regulation S Preference Shares be exchanged for Definitive Preference Shares. Because DTC can only act on behalf of Participants, which in turn act on behalf of indirect Participants and certain banks, the ability of a person having a beneficial interest in Regulation S Preference Shares to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may require that such interest in a Regulation S Preference Shares be exchanged for Definitive Preference Shares. Interests in a Regulation S Preference Share will be exchangeable for Definitive Preference Shares only as described above.

(f) Subject to compliance with the transfer restrictions applicable to the Preference Shares described above and under "Transfer Restrictions", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, Luxembourg, as the case may be, will if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in Regulation S Preference Shares in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream, Luxembourg participants and Euroclear participants may not deliver instructions directly to the depositories of Clearstream, Luxembourg or Euroclear.

(g) Because of time zone differences, cash received by Euroclear or Clearstream, Luxembourg as a result of sales of interests in Regulation S Preference Shares by or through a Euroclear or Clearstream, Luxembourg participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day following settlement in DTC.

(h) DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Preference Shares (including, without limitation, the presentation of Preference Shares for exchange as described above) only at the direction of one or more Participants to whose account with DTC interests in the Regulation S Preference Shares are credited and only in respect of the number of Preference Shares as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the Indenture relating to the Preference Shares, DTC will exchange the Regulation S Preference Shares for Definitive Preference Shares, legended as appropriate, which it will distribute to its Participants.

(i) DTC has advised the Issuer as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the

meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

(j) Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in a Regulation S Preference Share among participants of DTC, Clearstream, Luxembourg and Euroclear, 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 Trustee and the Preference Share Paying Agent will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective Participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

(ii) If, notwithstanding the foregoing restrictions, the Issuer determines that any beneficial owner of Preference Shares (or any interest therein) (A) is a U.S. Person (within the meaning of Regulation S under the Securities Act) and (B) is not both (1) a Qualified Institutional Buyer or an Institutional Accredited Investor (or an Accredited Investor that purchased such Preference Share or any interest therein directly from the Initial Purchaser) and (2) a Qualified Purchaser, then the Issuer may require, by notice to such holder, that such holder sell all of its right, title and interest to such Preference Shares to a person that is (1) a Qualified Institutional Buyer or an Institutional Accredited Investor and (2) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (I) upon direction from the Collateral Manager or the Issuer, the Preference Share Registrar, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Shares to be transferred in a commercially reasonable sale (conducted by the Preference Share Paying Agent in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market) to a person that certifies to the Preference Share Paying Agent, Preference Share Registrar, the Issuer and the Collateral Manager, in connection with such transfer, that such person is (x) a Qualified Institutional Buyer or an Institutional Accredited Investor and (y) a Qualified Purchaser and (II) pending such transfer, no further payments will be made in respect of the Preference Shares held by such beneficial owner.

(iii) No transfer of Preference Shares will be effective, and neither the Issuer nor the Preference Share Registrar will recognize any such transfer if, the transferee is a Benefit Plan Investor or Controlling Person.

(iv) The Preference Share Registrar will effect exchanges and transfers of Preference Shares. In addition, the Preference Share Registrar will keep in the Preference Share Register records of the ownership, exchange and transfer of the Preference Shares.

(v) The Preference Shares will bear the applicable legends regarding the restrictions set forth herein under "Transfer Restrictions".

(vi) No service charge will be made for exchange or registration of transfer of any Preference Share but the Preference Share Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith and expenses of delivery (if any) not made by regular mail. See "Transfer Restrictions".

(vii) The Issuer may impose additional transfer restrictions to comply with the USA PATRIOT Act and any other applicable anti-money laundering laws and regulations, to the extent it is applicable to the Issuer and, in such event, each holder of Preference Shares will be required to comply with such transfer restrictions.

No Gross-Up

All distributions of dividends and return of capital on the Preference Shares will be made without any deduction or withholding for or on account of any tax unless such deduction or withholding is required by any 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 instruct the Preference Share Paying Agent to make such deduction or withholding and to pay any such withholding taxes to the relevant taxing authority, but it will not be obligated to pay any additional amounts in respect of such withholding or deduction.

USE OF PROCEEDS

The gross proceeds received from the issuance and sale of the Offered Securities will be approximately U.S.\$602,000,000. The net proceeds from the issuance and sale of the Offered Securities, together with any upfront payment made to the Issuer under the Hedge Agreement, are expected to be approximately U.S.\$596,000,000 which reflects the payment from such gross proceeds of organizational and structuring fees and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Initial Purchaser and the Collateral Manager), the expenses of offering the Offered Securities (including any fees payable to the Initial Purchaser in connection with the offering of the Offered Securities), the initial deposit into the Interest Reserve Account of U.S.\$100,000 and the initial deposit into the Expense Account of U.S.\$100,000. Such net proceeds will be used by the Issuer to purchase a diversified portfolio of interests in (a) Asset-Backed Securities (including CDO Obligations) and (b) Synthetic Securities the Reference Obligation(s) of which are Asset-Backed Securities that, in each case, satisfy the investment criteria described herein. On the Closing Date, the Issuer will have purchased (or entered into agreements to purchase for settlement following the Closing Date) Collateral Debt Securities having an aggregate principal balance of not less than 65% of the sum of the Aggregate Ramp-Up Par Amount. The Issuer expects that, no later than the 120th day following the Closing Date (the "Ramp-Up Completion Date"), it will have purchased Collateral Debt Securities having an aggregate par amount of at least U.S.\$600,000,000. Any such proceeds not invested in Collateral Debt Securities or deposited into the Expense Account will be deposited by the Trustee in the Uninvested Proceeds Account and invested in Eligible Investments pending the use of such proceeds for the purchase of Collateral Debt Securities, as described herein, and, in certain limited circumstances described herein, for the payment of the Notes. See "Security for the Notes".

RATING OF THE OFFERED SECURITIES

It is a condition to the issuance of the Offered Securities that the Class A-1 Notes be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"), "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), and "AAA" by Fitch Ratings ("Fitch", and together with Moody's and Standard & Poor's, the "Rating Agencies"), that the Class A-2A Notes be rated "Aaa" by Moody's, "AAA" by Standard & Poor's and "AAA" by Fitch, that the Class A-2B Notes be rated "Aaa" by Moody's, "AAA" by Standard & Poor's and "AAA" by Fitch, that the Class B Notes be rated "Aa2" by Moody's, "AA" by Standard & Poor's and "AA" by Fitch, that the Class C Notes be rated "Baa2" by Moody's, "BBB" by Standard & Poor's and "BBB" by Fitch and that the Preference Shares be rated "Ba3" by Moody's, "BB-" by Standard & Poor's and "BB-" by Fitch. The ratings of the Class A-1 Notes, the Class A-2A Notes, the Class A-2B Notes and the Class B Notes address the ultimate payment of principal of, and the timely payment of interest on, such Notes. The ratings of the Class C Notes address the ultimate payment of principal of and interest on the Class C Notes.

The ratings assigned to the Preference Shares by the Rating Agencies (a) address the ultimate receipt of the initial Preference Share Stated Balance and the ultimate receipt of payments resulting in a yield on the Preference Share Stated Balance (adjusted from time to time as described below) equivalent to 2% per annum (the "Preference Share Stated Coupon"), (b) will not at any time address the timely receipt of any payments, including payments on redemption or repurchase of the Preference Shares or any other distributions thereon, (c) will be monitored by each Rating Agency on an ongoing basis and (d) will take into consideration the then-prevailing Preference Share Stated Balance. The Preference Share Stated Balance may at any time be less than the aggregate

liquidation preference of the Preference Shares. The rating assigned to the Preference Shares by each Rating Agency at any time will be based on the loss, discounted to present value at a discount rate of 2% per annum, expected to be incurred by the Preference Shareholders with respect to the ultimate receipt of the Preference Share Stated Balance and Preference Share Stated Coupon or, in the case of the Moody's and Fitch ratings of the Series 2 Preference Shares, the receipt of an IRR of 2%. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

"Preference Share Stated Coupon" means, on any Distribution Date, an amount equal to the sum of (a) the product of (i) an amount equal to (x) the aggregate liquidation preference of the Preference Shares (i.e., U.S.\$24,600,000) plus (y) the Preference Share Stated Coupon for all prior Distribution Dates minus (z) the aggregate amount of all cash distributions in respect of the Preference Share Stated Coupon actually paid on all prior Distribution Dates multiplied by (ii) 2% multiplied by (iii) the number of days during the period from, and including, the immediately preceding Distribution Date (or, if there is no such date, on the Closing Date) to, but excluding, the next succeeding Distribution Date divided by (iv) 360 plus (b) the Preference Share Stated Coupon for all prior Distribution Dates minus (c) the aggregate amount of all cash distributions in respect of the Preference Share Stated Coupon actually paid on all prior Distribution Dates.

"Preference Share Stated Balance" means an amount equal to (i) on the Closing Date, the aggregate liquidation preference of the Preference Shares (i.e., U.S.\$24,600,000) and (ii) on any Distribution Date, the Preference Share Stated Balance on the immediately preceding Distribution Date (or, if there is no such date, on the Closing Date) reduced by the aggregate amount of all cash distributions in respect of the Preference Shares payable on such current Distribution Date (other than cash distributions made in respect of the Preference Share Stated Coupon).

The Co-Issuers will request that each Rating Agency confirm, no later than 30 days after receiving a Ramp-Up Notice, that such Rating Agency has not reduced or withdrawn the rating (including shadow, private or confidential ratings, if any) assigned by it on the Closing Date, if any, to the Class A-1 Notes, the Class A-2 Notes, the Class B Notes and the Class C Notes (a "Rating Confirmation"). In the event of a Rating Confirmation Failure, the Issuer will prepay principal of the Notes as and to the extent necessary for each of Moody's, Standard & Poor's and Fitch to confirm the rating assigned by it on the Closing Date, if any, to each Class of Notes. See "Description of the Notes—Mandatory Redemption" and "—Priority of Payments".

To the extent required by applicable stock exchange rules, the Co-Issuers will inform any such exchange on which any of the Offered Securities are listed if any rating assigned by Moody's, Standard & Poor's or Fitch to such Offered Securities is reduced or withdrawn.

MATURITY, PREPAYMENT AND YIELD CONSIDERATIONS

The Stated Maturity of the Notes is March 6, 2039. The Notes will mature at their Stated Maturity unless redeemed or repaid prior thereto. The Preference Shares will be redeemed on March 6, 2039 or, if such a day is not a Business Day, the immediately following Business Day (the "Scheduled Preference Share Redemption Date") unless redeemed prior thereto. However, the average lives of the Notes and the modified duration of the Preference Shares may be less than the number of years until the Stated Maturity or the Scheduled Preference Share Redemption Date, respectively. Based on the portfolio of Collateral Debt Securities that the Collateral Manager expects the Issuer to purchase by the 120th day following the Closing Date, assuming (a) no Collateral Debt Securities default or are sold, (b) any optional redemption of the Collateral Debt Securities occurs in accordance with their respective terms, (c) all outstanding Notes are redeemed on the Distribution Date occurring in March 2012, (d) LIBOR for each future Interest Period equals the rate for such Interest Period based on the zero coupon swap curve with such rate initially to be equal to approximately 1.13%, and (e) (i) the average life of the Class A-1 Notes would be approximately 5.32 years from the Closing Date, (ii) the average life of the Class A-2 Notes would be approximately 7.23 years from the Closing Date, (iii) the average life of the Class B Notes would be approximately 7.68 years from the Closing Date, (iv) the average life of the Class C Notes would be approximately 5.31 years from the Closing Date and (v) the modified duration of the Preference Shares would be approximately 4.58 years. Such average lives of the Notes and the modified duration of the Preference Shares are presented for illustrative purposes only. Although the Collateral Manager prepared the list identifying the portfolio of Collateral Debt Securities that it expects the Issuer to purchase by the 120th day following the Closing Date based upon its experience and expertise as a manager of Asset-Backed Securities, the assumed identity of the portfolio purchased by the Issuer and the other assumptions used to calculate such average lives of the Notes and the modified duration of the Preference Shares are necessarily arbitrary, do not necessarily reflect historical experience with respect to securities similar to the Collateral Debt Securities and do not constitute a prediction with respect to the rates or timing of receipts of Interest Proceeds or Principal Proceeds, the acquisition of Collateral Debt Securities on or prior to the last day of the Substitution Period, defaults, recoveries, sales, reinvestments, prepayments or optional redemptions to which the Collateral Debt Securities may be subject. Actual experience as to these matters will differ, and may differ materially, from that assumed in calculating the illustrative average lives and the modified duration set forth above, and consequently the actual average lives of the Notes and the modified duration of the Preference Shares will differ, and may differ materially, from those set forth above. Accordingly, prospective investors should make their own determinations of the expected weighted average lives and maturity of the Notes and the modified duration of the Preference Shares and, accordingly, their own evaluation of the merits and risks of an investment in the Notes or the Preference Shares. See "Risk Factors—Projections, Forecasts and Estimates".

Average life refers to the average number of years that will elapse from the date of delivery of a security until each Dollar of the principal of such security will be paid to the investor. The "modified duration" is the weighted average term-to-maturity (expressed in years) of the cash flows in respect of the Preference Shares, where the weights are the present values of each cash flow as a percentage of the present value of all cash flows to the Preference Shareholders. The cash flows are discounted at the internal rate of return to the Preference Shareholders for that scenario.

The average lives of the Notes, and the modified duration of the Preference Shares, will be determined by the amount and frequency of principal payments, which are dependent upon any payments received at or in advance of the scheduled maturity of Collateral Debt Securities (whether through prepayment, sale, maturity, redemption, default or other liquidation or disposition). The actual

average lives of the Notes and the modified duration of the Preference Shares, will also be affected by the financial condition of the obligors of the underlying Collateral Debt Securities and the characteristics of such obligations, including the existence and frequency of exercise of any optional or mandatory redemption or prepayment features, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries on any Defaulted Securities, and the frequency of tender or exchange offers for such Collateral Debt Securities. Any disposition of a Collateral Debt Security may change the composition and characteristics of the Collateral Debt Securities and the rate of payment thereon, and, accordingly, may affect the actual average lives of the Notes and the modified duration of the Preference Shares. The rate of future defaults and the amount and timing of any cash realization from Defaulted Securities also will affect the average lives of the Notes and the modified duration of the Preference Shares.

THE CO-ISSUERS

General

The Issuer was incorporated as an exempted company and registered on September 26, 2003 in the Cayman Islands pursuant to the Issuer Charter and is in good standing under the laws of the Cayman Islands, with the registered number 129324. The registered office of the Issuer is at the offices of Walkers SPV Limited, Walker House, 908GT, Mary Street, George Town, Grand Cayman, Cayman Islands. The Issuer has no prior operating experience other than in connection with the acquisition of certain Collateral Debt Securities prior to the issuance of the Offered Securities and the engagement of the Collateral Manager and the entering into of arrangements with respect thereto, and the Issuer will not have any substantial assets other than the Collateral pledged to secure the Notes and the Issuer's obligations to the Trustee.

Article 3 of the Issuer Charter sets out the objects of the Issuer, which include the business to be carried out by the Issuer in connection with the issuance of the Offered Securities. The Issuer Charter also provides that the Issuer will be liquidated on the date that is thirty six years and two days following the Closing Date, unless earlier dissolved and terminated in accordance with the terms of the Issuer Charter. See "Description of the Preference Shares—Issuer Charter—Dissolution; Liquidating Distributions". The entire authorized share capital of the Issuer will consist of (a) 1,000 ordinary shares, par value U.S.\$1.00 per share (which will be held in trust for charitable purposes by Walkers SPV Limited in the Cayman Islands (the "Share Trustee") under the terms of a declaration of trust), (b) 19,100 Series 1 Preference Shares, par value U.S.\$0.01 per share and having a liquidation preference of U.S.\$1,000 per share and (c) 5,500 Series 2 Preference Shares, par value U.S.\$0.01 per share and having a liquidation preference of U.S.\$1,000 per share.

The Co-Issuer was incorporated on January 28, 2004 under the laws of the State of Delaware with the registered number 3758127, and its registered office is c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801. The Third Article of the Co-Issuer's Certificate of Incorporation sets out the objects of the Co-Issuer, which include the business to be carried out by the Co-Issuer in connection with the issuance of the Notes. The sole director and officer of the Co-Issuer is Donald J. Puglisi and he may be contacted at the registered office of the Co-Issuer. The Co-Issuer has no prior operating experience. It will not have any assets (other than its U.S.\$1,000 of share capital owned by the Issuer) and will not pledge any assets to secure the Notes. The Co-Issuer will not have any interest in the Collateral Debt Securities or other assets held by the Issuer.

The Notes are obligations only of the Co-Issuers, and none of the Notes are obligations of the Trustee, the Share Trustee, the Administrator, the Collateral Manager, the Initial Purchaser or any of their respective affiliates or any directors or officers of the Co-Issuers.

Walkers SPV Limited will act as the administrator (in such capacity, the "Administrator") of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement by and between the Administrator and the Issuer (the "Administration Agreement"), the Administrator will perform various management functions on behalf of the Issuer, including communications with the general public and the provision of certain clerical, administrative and other services until termination of the Administration Agreement. In consideration of the foregoing, the Administrator will receive various fees and other charges payable by the Issuer at rates provided for in the Administration Agreement and will be reimbursed for expenses.

The Administrator will be subject to the overview of the Board of Directors of the Issuer. The directors of the Issuer are David Egglshaw, John Cullinane and Derrie Boggess, each of whom is a director or officer of the Administrator and each of whose offices are at c/o Walkers SPV Limited, P.O. Box 908GT, Mary Street, George Town, Grand Cayman, Cayman Islands. The Administration Agreement may be terminated by either the Issuer (acting upon the recommendation of the Collateral Manager) or the Administrator upon 30 days' written notice.

The Administrator's principal office is at Walker House, P.O. Box 908 GT, Mary Street, George Town, Grand Cayman, Cayman Islands.

Capitalization and Indebtedness of the Issuer and the Co-Issuer

The initial capitalization of the Issuer as of the Closing Date, after giving effect to the issuance of the Offered Securities and the ordinary shares of the Issuer but before deducting expenses of the offering of the Offered Securities and organizational expenses of the Co-Issuers, is expected to be as follows:

Class A-1 Notes	U.S.\$396,000,000
Class A-2A Notes	U.S.\$84,000,000
Class A-2B Notes	U.S.\$15,000,000
Class B Notes	U.S.\$56,400,000
Class C Notes	<u>U.S.\$26,000,000</u>
Total Debt	U.S.\$577,400,000
Ordinary Shares	U.S.\$1,000
Series 1 Preference Shares	<u>U.S.\$19,100,000</u>
Series 2 Preference Shares	<u>U.S.\$5,500,000</u>
Total Equity	U.S.\$24,601,000
Total Capitalization	<u>U.S.\$602,001,000</u>

The Issuer will not have any material assets other than the Collateral and its equity interest in the Co-Issuer.

The Co-Issuer will be capitalized only to the extent of its U.S.\$1,000 of share capital, will have no assets other than its share capital and will have no debt other than as Co-Issuer of the Notes. As of the Closing Date and after giving effect to the issuance of the Co-Issuer's shares, the authorized and issued share capital of the Co-Issuer is 1,000 common shares, par value U.S.\$1.00 per share.

Business

The Indenture and the Issuer Charter provide that the activities of the Issuer are limited to (1) acquisition and disposition of, and investment and reinvestment in, Collateral Debt Securities, Equity Securities, U.S. Agency Securities and Eligible Investments, (2) the entry into, and the performance of its obligations under, the Indenture, the Hedge Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Securities Purchase Agreement, the Class A-2A Agency and Amending Agreement and the Preference Share Paying Agency Agreement, (3) the issuance and sale of the Offered Securities, (4) the pledge of the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the

Secured Parties, (5) ownership and management of the Co-Issuer and (6) other incidental activities. The Issuer has no employees and no subsidiaries other than the Co-Issuer. The Co-Issuer will not undertake any business other than the issuance of the Notes. The Co-Issuer will not pledge any assets to secure the Notes and will not have any interest in the Collateral held by the Issuer.

The Issuer is not required under the laws of the Cayman Islands and the Issuer does not intend, and the Co-Issuer is not required under the laws of the State of Delaware and the Co-Issuer does not intend, to publish annual reports and accounts. The Indenture, however, requires the Issuer to provide the Trustee with written confirmation, on an annual basis, that to the best of its knowledge following a review of the activities of the prior year, no Event of Default or other matter required to be brought to the Trustee's attention has occurred or, if one has occurred, specifying the nature and status thereof, including actions undertaken to remedy the same.

SECURITY FOR THE NOTES

General

The Collateral securing the Notes will consist of: (i) the Collateral Debt Securities and Equity Securities; (ii) amounts on deposit in the Payment Account, the Interest Collection Account, the Principal Collection Account, the Interest Reserve Account, the Expense Account, the Uninvested Proceeds Account, the Hedge Counterparty Collateral Account and the Interest Equalization Account, Eligible Investments and U.S. Agency Securities purchased with funds on deposit in such accounts; (iii) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Securities Purchase Agreement, the Subscription Agreements and the Hedge Agreement; and (iv) all proceeds of the foregoing (collectively, the "Collateral").

Collateral Debt Securities

A "Collateral Debt Security" includes:

- (a) any Dollar-denominated obligation or security ("CDO Obligation") issued by a collateralized debt obligation fund ("CDO Issuer");
- (b) any Dollar-denominated asset-backed security ("Other ABS") issued by an asset-backed securities issuer other than a CDO Issuer ("Other ABS Issuer");
- (c) any Synthetic Security the Reference Obligation(s) of which and any Deliverable Obligation under which is a CDO Obligation or Other ABS that would qualify to be included as a Collateral Debt Security hereunder if purchased directly by the Issuer; and
- (d) any debt obligation that is delivered to the Issuer upon the occurrence of a "credit event" under a Synthetic Security ("Deliverable Obligation");

provided that in no event will Collateral Debt Security include:

- (i) any obligation or security (other than an Interest Only Security or NIM Security) that does not provide for a fixed amount of principal payable in cash no later than its stated maturity;
- (ii) any obligation or security that is not eligible under the instrument or agreement pursuant to which it was issued or created to be purchased by the Issuer and pledged to the Trustee;
- (iii) any obligation or security denominated or payable in, or convertible into an obligation or security denominated or payable in, a currency other than Dollars;
- (iv) any obligation or security that requires the Issuer to make future advances to the obligor or issuer;
- (v) any obligation or security that does not have a Moody's Rating, a Standard & Poor's Rating and a Fitch Rating, in each case determined as provided herein;
- (vi) any obligation or security issued by a collateralized bond obligation fund or collateralized loan obligation fund managed by the Collateral Manager or any of its Affiliates;

(vii) any obligation or security unless it is in registered form for U.S. Federal income tax purposes and it (and if it is certificate of interest in a trust that is treated as a grantor trust, each of the obligations or securities held by such trust) was issued after July 18, 1984;

(viii) any obligation or security unless the Issuer will receive payments due under the terms of such security and proceeds from disposing of such obligation or security free and clear of withholding tax, other than withholding tax as to which the obligor or issuer must make additional payments so that the net amount received by the Issuer after satisfaction of such tax is the amount due to the Issuer before the imposition of any withholding tax;

(ix) any obligation or security unless the acquisition (including the manner of acquisition), ownership, enforcement and disposition of such security will not cause the Issuer to be treated as engaged in a U.S. trade or business for U.S. Federal income tax purposes or otherwise to be subject to tax on a net income basis in any jurisdiction outside the Issuer's jurisdiction of incorporation;

(x) an obligation or security (other than an Interest Only Security or NIM Security) whose timely payment of principal and interest is subject to substantial non-credit related risk, as determined by the Collateral Manager at the time of purchase by the Issuer;

(xi) an obligation or security as to which interest is being deferred or paid in kind, or as to which there is any outstanding deferred interest or interest paid in kind, at the time of purchase by the Issuer (excluding, for these purposes, the accreted amount of any Zero Coupon Bond);

(xii) an obligation or security that at the time of purchase by the Issuer provides for conversion into or exchange for Equity Securities or includes any Equity Securities attached thereto or acquired as a "unit";

(xiii) an obligation or security bearing interest at a floating rate whose interest rate is inversely or otherwise not proportionately related to an interest rate index or is calculated as other than the sum of an interest rate index plus a spread;

(xiv) any obligation or security that pays interest less frequently than annually; or

(xv) any obligation or security the Rating of which from Standard & Poor's includes the subscript "r", "t", "p", "pi" or "q".

With respect to the definition of "Collateral Debt Security", "Affiliate" means, in relation to any specified person, any other person controlled, directly or indirectly, by the specified person, any other person that controls, directly or indirectly, the specified person or any other person directly or indirectly under common control with the specified person; *provided* that no other special purpose company to which the Administrator provides directors and acts as share trustee shall be an Affiliate of the Issuer. "Control" of any person means ownership of a majority of the voting power of such person or the power to direct or cause the direction of the management or policies of such person. "Collateral Manager Group" means the Collateral Manager and any of its direct or indirect subsidiaries.

Asset-Backed Securities

Most of the Collateral Debt Securities will consist of Asset-Backed Securities, including, without limitation, an Aerospace and Defense Security, an Automobile Security, a Bank Guaranteed Security, a Car Rental Receivable Security, a CMBS Conduit Security, a CMBS Credit Tenant Lease Security, a CMBS Large Loan Security, a Credit Card Security, an Equipment Leasing Security, a Healthcare Security, a High-Diversity CBO Security, a Home Equity Loan Security, an Insurance Company Guaranteed Security, a Low-Diversity CBO Security, a Manufactured Housing Security, a Mutual Fund Fee Security, an Oil and Gas Security, a Project Finance Security, a Reinsurance Security, a REIT Debt Security—Diversified, a REIT Debt Security—Health Care, a REIT Debt Security—Hotel, a REIT Debt Security—Industrial, REIT Debt Security—Mortgage, a REIT Debt Security—Multi-Family, a REIT Debt Security—Office, a REIT Debt Security—Retail, a REIT Debt Security—Residential, a REIT Debt Security—Storage, a Residential A Mortgage Security, a Residential B/C Mortgage Security, a Restaurant and Food Service Security, a Small Business Loan Security, a Student Loan Security, a Subprime Automobile Security and a Tax Lien Security. Asset-Backed Securities are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities.

The term "Asset-Backed Securities" is generally used to refer to securities for which the underlying collateral consists of assets such as credit card receivables, home equity loans, leases or commercial mortgage loans. Issuers of Asset-Backed Securities are primarily banks and finance companies, captive finance subsidiaries of non-financial corporations or specialized originators such as credit card lenders. Credit risk is an important issue in Asset-Backed Securities because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. Accordingly, Asset-Backed Securities generally include one or more credit enhancements that are designed to raise the overall credit quality of the security above that of the underlying collateral. Another important type of Asset-Backed Security is commercial paper issued by special-purpose entities. Asset-backed commercial paper is usually backed by trade receivables, though such conduits may also fund commercial and industrial loans. Banks are typically more active as issuers of these instruments than as investors in them.

An Asset-Backed Security is created by the sale of assets or collateral to a conduit, which becomes the legal issuer of the Asset-Backed Securities. The securitization conduit or issuer is generally a bankruptcy-remote vehicle such as a grantor trust or, in the case of an asset-backed commercial paper program, a special-purpose entity. The sponsor or originator of the collateral usually establishes the issuer. Interests in the trust, which embody the right to certain cash flows arising from the underlying assets, are then sold in the form of securities to investors through an investment bank or other securities underwriter. Each Asset-Backed Security has a servicer (often the originator of the collateral) that is responsible for collecting the cash flows generated by the securitized assets—principal, interest and fees net of losses and any servicing costs as well as other expenses—and for passing them along to the investors in accordance with the terms of the securities. The servicer processes the payments and administers the borrower accounts in the pool.

The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Often Asset-Backed Securities are structured to reallocate the risks entailed in the underlying collateral (particularly credit risk) into security tranches that match the desires of investors. For example, senior subordinated security structures give holders of senior tranches

greater credit risk protection (albeit at lower yields) than holders of subordinated tranches. Under this structure, at least two classes of Asset-Backed Securities are issued, with the senior class having a priority claim on the cash flows from the underlying pool of assets. The subordinated class must absorb credit losses on the collateral before losses can be charged to the senior portion. Because the senior class has this priority claim, cash flows from the underlying pool of assets must first satisfy the requirements of the senior class. Only after these requirements have been met will the cash flows be directed to service the subordinated class.

Asset-Backed Securities also use various forms of credit enhancements to transform the risk-return profile of underlying collateral, including third-party credit enhancements, recourse provisions, overcollateralization and various covenants. Third-party credit enhancements include standby letters of credit, collateral or pool insurance, or surety bonds from third parties. Recourse provisions are guarantees that require the originator to cover any losses up to a contractually agreed-upon amount. One type of recourse provision, usually seen in securities backed by credit card receivables, is the "spread account". This account is actually an escrow account whose funds are derived from a portion of the spread between the interest earned on the assets in the underlying pool of collateral and the lower interest paid on securities issued by the trust. The amounts that accumulate in this escrow account are used to cover credit losses in the underlying asset pool, up to several multiples of historical losses on the particular assets collateralizing the securities. Overcollateralization is another form of credit enhancement that covers a predetermined amount of potential credit losses. It occurs when the value of the underlying assets exceeds the face value of the securities. A similar form of credit enhancement is the cash-collateral account, which is established when a third party deposits cash into a pledged account. The use of cash-collateral accounts, which are considered by enhancers to be loans, grew as the number of highly rated banks and other credit enhancers declined in the early 1990s. Cash-collateral accounts provide credit protection to investors of a securitization by eliminating "event risk," or the risk that the credit enhancer will have its credit rating downgraded or that it will not be able to fulfill its financial obligation to absorb losses. An investment banking firm or other organization generally serves as an underwriter for Asset-Backed Securities. In addition, a credit-rating agency often will analyze the policies and operations of the originator and servicer, as well as the structure, underlying pool of assets, expected cash flows and other attributes of the securities. Before assigning a rating to the issue, the rating agency will also assess the extent of loss protection provided to investors by the credit enhancements associated with the issue.

Although the basic elements of all Asset-Backed Securities are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and down-streamed to investors, how credit losses affect the trust and the return to investors, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the trust or conduit or to the investors. Further issues may arise based on discretionary behavior of the issuer within the terms of the securitization agreement, such as voluntary buybacks from, or contributions to, the underlying pool of loans when credit losses rise. A bank or other issuer may play more than one role in the securitization process. An issuer can simultaneously serve as originator of loans, servicer, administrator of the trust, underwriter, provider of liquidity and credit enhancer. Issuers typically receive a fee for each element of the transaction they undertake. Institutions acquiring Asset-Backed Securities should recognize that the multiplicity of roles that may be played by a single firm—within a single securitization or across a number of them—means that

credit and operational risk can accumulate into significant concentrations with respect to one or a small number of firms.

There are many different varieties of Asset-Backed Securities, often customized to the terms and characteristics of the underlying collateral. The most common types are securities collateralized by revolving credit-card receivables, but instruments backed by home equity loans, other second mortgages and automobile-finance receivables are also common.

Securities backed by closed-end installment loans are typically the least complex form of asset-backed instruments. Collateral for these Asset-Backed Securities typically includes leases, student loans and automobile loans. The loans that form the pool of collateral for the Asset-Backed Securities may have varying contractual maturities and may or may not represent a heterogeneous pool of borrowers. Unlike a mortgage pass-through instrument, the trustee does not need to take physical possession of any account documents to perfect a security interest in the receivables under the Uniform Commercial Code. The repayment stream on installment loans is fairly predictable, since it is primarily determined by a contractual amortization schedule. Early repayment on these instruments can occur for a number of reasons, with most tied to the disposition of the underlying collateral (for example, in the case of Asset-Backed Securities backed by automobile loans, the sale of the vehicles). Interest is typically passed through to security holders at a fixed rate that is slightly below the weighted average coupon of the loan pool, allowing for servicing and other expenses as well as credit losses.

Unlike closed-end installment loans, revolving credit receivables involve greater uncertainty about future cash flows. Therefore, Asset-Backed Securities structures using this type of collateral must be more complex to afford investors more comfort in predicting their repayment. Accounts included in the securitization pool may have balances that grow or decline over the life of the Asset-Backed Securities. Accordingly, at maturity of the Asset-Backed Securities, any remaining balances revert to the originator. During the term of the Asset-Backed Securities, the originator may be required to sell additional accounts to the pool to maintain a minimum dollar amount of collateral if accountholders pay down their balances in advance of predetermined rates. Credit card securitizations are the most prevalent form of revolving credit Asset-Backed Securities, although home equity lines of credit are a growing source of Asset-Backed Securities collateral. Credit card securitizations are typically structured to incorporate two phases in the life cycle of the collateral: an initial phase during which the principal amount of the securities remains constant and an amortization phase during which investors are paid off. A specific period of time is assigned to each phase. Typically, a specific pool of accounts is identified in the securitization documents, and these specifications may include not only the initial pool of loans but also a portfolio from which new accounts may be contributed. The dominant vehicle for issuing securities backed by credit cards is a master trust structure with a "spread account," which is funded up to a predetermined amount through "excess yield"—that is, interest and fee income less credit losses, servicing and other fees. With credit card receivables, the income from the pool of loans—even after credit losses—is generally much higher than the return paid to investors. After the spread account accumulates to its predetermined level, the excess yield reverts to the issuer. Under GAAP, issuers are required to recognize on their balance sheet an excess yield asset that is based on the fair value of the expected future excess yield; in principle, this value would be based on the net present value of the expected earnings stream from the transaction. Issuers are further required to revalue the asset periodically to take account of changes in fair value that may occur due to interest rates, actual credit losses and other factors relevant to the future stream of excess yield. The accounting and capital implications of these transactions are discussed further below.

A number of banks have used a structure—a "special-purpose entity"—that is designed to acquire trade receivables and commercial loans from high-quality (often investment-grade) obligors and to fund those loans by issuing (asset-backed) commercial paper that is to be repaid from the cash flow of the receivables. Capital is contributed to the special-purpose entity by the originating bank that, together with the high quality of the underlying borrowers, is sufficient to allow the special-purpose entity to receive a high credit rating. The net result is that the special-purpose entity's cost of funding can be at or below that of the originating bank itself. The special-purpose entity is "owned" by individuals who are not formally affiliated with the bank, although the degree of separation is typically minimal. These securitization programs enable banks to arrange short-term financing support for their customers without having to extend credit directly. This structure provides borrowers with an alternative source of funding and allows banks to earn fee income for managing the programs. As the asset-backed commercial paper structure has developed, it has been used to finance a variety of underlying loans—in some cases, loans purchased from other firms rather than originated by the bank itself—and as a "remote origination" vehicle from which loans can be made directly. Like other securitization techniques, this structure allows banks to meet their customers' credit needs while incurring lower capital requirements and a smaller balance sheet than if it made the loans directly.

Issuers obtain a number of advantages from securitizing assets, including improving their capital ratios and return on assets, monetizing gains in loan value, generating fee income by providing services to the securitization conduit, closing a potential source of interest-rate risk and increasing institutional liquidity by providing access to a new source of funds. Investors are attracted by the high credit quality of Asset-Backed Securities, as well as their attractive returns.

Asset-Backed Securities carry coupons that can be fixed or floating. Pricing is typically designed to mirror the coupon characteristics of the loans being securitized. The spread will vary depending on the credit quality of the underlying collateral, the degree and nature of credit enhancement and the degree of variability in the cash flows emanating from the securitized loans.

Credit risk arises from (1) losses due to defaults by the borrowers in the underlying collateral and (2) the issuer's or servicer's failure to perform. These two elements can blur together as, for example, in the case of a servicer who does not provide adequate credit-review scrutiny to the serviced portfolio, leading to higher incidence of defaults. Asset-Backed Securities are rated by major rating agencies. Market risk arises from the cash-flow characteristics of the security, which for many Asset-Backed Securities tend to be predictable. The greatest variability in cash flows comes from credit performance, including the presence of wind-down or acceleration features designed to protect the investor in the event that credit losses in the portfolio rise well above expected levels. Interest-rate risk arises for the issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to security holders and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. Liquidity risk can arise from increased perceived credit risk, like that which occurred in 1996 and 1997 with the rise in reported delinquencies and losses on securitized pools of credit cards. Liquidity can also become a major concern for asset-backed commercial paper programs if concerns about credit quality, for example, lead investors to avoid the commercial paper issued by the relevant special-purpose entity. For these cases, the securitization transaction may include a "liquidity facility," which requires the facility provider to advance funds to the relevant special-purpose entity should liquidity problems arise. To the extent that the bank originating the loans is also the provider of the liquidity facility, and that the bank is likely to experience similar market concerns if the loans it originates deteriorate, the ultimate practical value of the liquidity facility to the transaction may be questionable. Operations risk arises through the potential for misrepresentation of loan quality or terms by the originating institution, misrepresentation of the nature and current value of the assets by the servicer and inadequate controls over disbursements and receipts by the servicer.

For the purpose of determining compliance with the Reinvestment Criteria set forth below, the Asset-Backed Securities to be pledged to the Trustee on Closing Date are divided into 36 different "Specified Types" as follows:

"Aerospace and Defense Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from leases and subleases of aircraft, vessels and telecommunications equipment to businesses for use in the provision of goods or services to consumers, the military or the government, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying equipment; (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of lease term for excess usage or wear and tear; and (5) the obligations of the lessors or sublessors may be secured not only by the leased equipment but also by other assets of the lessee, sublessee or guarantees granted by third parties.

"Automobile Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from installment sale loans made to finance the acquisition of, or from leases of, automobiles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessors and accordingly represent a very diversified pool of obligor credit risk; (3) the borrowers or lessees under the loans or leases generally do not have a poor credit rating; (4) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and (5) such leases typically provide for the right of the lessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"Bank Guaranteed Securities" means any Asset-Backed Security as to which, if interest thereon is not timely paid when due, or the principal thereof is not timely paid at stated legal maturity, a national banking association organized under United States law or banking corporation organized under the laws of a state of the United States has undertaken in an irrevocable letter of credit or other similar instrument to make such payment against the presentation of documents, but only if such letter of credit or similar instrument (1) expires no earlier than such stated maturity (or contains "evergreen" provisions entitling the beneficiary thereof to draw the entire undrawn amount thereof upon the failure of the expiration date of such letter of credit or other similar instrument to be extended beyond its then current expiry date), (2) provides that payment thereunder is independent of the performance by the obligor on the relevant Asset-Backed Security and (3) was issued by a bank having a credit rating assigned by each nationally recognized statistical rating organization that currently rates such Asset-Backed Security higher than the credit rating assigned by such rating organization to such Asset-Backed Security, determined without giving effect to such letter of credit or similar instrument, *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

"Car Rental Receivable Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from leases and subleases of vehicles to car rental systems (such as Hertz, Avis, National, Dollar, Budget, etc.) and their franchisees, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the subleases are obligations of numerous franchisees and accordingly represent a very diversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee or third party of the underlying vehicle; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"CMBS Conduit Securities" means Asset-Backed Securities (A) issued by a single-seller or multi-seller conduit under which the holders of such Asset-Backed Securities have recourse to a specified pool of assets (but not other assets held by the conduit that support payments on other series of securities) and (B) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of commercial mortgage loans generally having the following characteristics: (1) the commercial mortgage loans have varying contractual maturities; (2) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the commercial mortgage loans are obligations of a relatively limited number of obligors (with the creditworthiness of individual obligors being less material than for CMBS Large Loan Securities and Credit Tenant Lease Securities) and accordingly represent a relatively undiversified pool of obligor credit risk; (4) upon original issuance of such Asset-Backed Securities, no more than five commercial mortgage loans account for more than 20% of the aggregate principal balance of the entire pool of commercial mortgage loans supporting payments on such securities; and (5) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium.

"CMBS Credit Tenant Lease Securities" means Asset-Backed Securities (other than CMBS Large Loan Securities and CMBS Conduit Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties leased to corporate tenants (or on the cash flow from such leases). They generally have the following characteristics: (1) the commercial mortgage loans or leases have varying contractual maturities; (2) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the leases are secured by leasehold interests; (4) the commercial mortgage loans or leases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment thereof can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans or termination of leases depending on numerous factors specific to the particular obligors or lessees and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; and (6) the creditworthiness of such corporate tenants is the primary factor in any decision to invest in these securities.

"CMBS Large Loan Securities" means Asset-Backed Securities (other than CMBS Conduit Securities and CMBS Credit Tenant Lease Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties. They generally have the following characteristics: (1) the commercial mortgage loans have varying contractual maturities; (2) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the commercial mortgage loans are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (4) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (5) the valuation of individual properties securing the commercial mortgage loans is the primary factor in any decision to invest in these securities.

"Credit Card Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from balances outstanding under revolving consumer credit card accounts, generally having the following characteristics: (1) the accounts have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (3) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum credit limit and general economic matters.

"Enhanced Equipment Debt Trust Certificates" means Asset-Backed Securities issued by a pass-through trust or other similar arrangement (a) that entitle the holders thereof to receipt of payments that depend primarily on cash flows generated by, and are secured by, equipment, (b) as to which payments and risk of loss in the event of any loss upon realization depend upon seniority in the capital structure of the issuer and (c) as to which senior securities in such capital structure have the benefit of a liquidity facility made available by or on behalf of the owner of such equipment.

"Equipment Leasing Securities" means Asset-Backed Securities (other than Healthcare Securities, Restaurant and Food Service Securities, Small Business Loan Securities and Oil and Gas Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from leases and subleases of equipment (other than automobiles) to commercial and industrial customers.

"Healthcare Securities" means Asset-Backed Securities (other than Small Business Loan Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from leases and subleases of equipment to hospitals, non-hospital medical facilities, physicians and physician groups for use in the provision of healthcare services, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying equipment; and (4) such leases or subleases

typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of lease term for excess usage or wear and tear.

"High-Diversity CBO Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a portfolio of asset-backed securities or corporate debt securities or any combination of the foregoing, generally having the following characteristics: (1) the debt securities have varying contractual maturities; (2) the securities are obligations of obligors or issuers that represent a diversified pool of obligor credit risk having a Moody's diversity score higher than 20; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual debt securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of securities bearing interest at a fixed rate, such securities include an effective prepayment premium; and (4) proceeds from such repayments can for a limited period and subject to compliance with certain Reinvestment Criteria be reinvested in additional debt securities.

"Home Equity Loan Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from balances (including revolving balances) outstanding under loans or lines of credit secured by (but not, upon origination, by a first priority lien on) residential real estate (single or multi-family properties) the proceeds of which loans or lines of credit are not used to purchase such real estate or to purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics: (1) the balances have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; (3) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum line of credit and general economic matters; and (4) the line of credit or loan may be secured by residential real estate with a market value (determined on the date of origination of such line of credit or loan) that is less than the original proceeds of such line of credit or loan.

"Insurance Company Guaranteed Securities" means any Asset-Backed Security as to which the timely payment of interest when due, and the payment of principal no later than stated legal maturity, is unconditionally guaranteed pursuant to an insurance policy, guarantee or other similar instrument issued by an insurance company organized under the laws of a state of the United States, but only if such insurance policy, guarantee or other similar instrument (1) expires no earlier than such stated maturity, (2) provides that payment thereunder is independent of the performance by the obligor on the relevant Asset-Backed Security and (3) is issued by an insurance company having a credit rating assigned by each nationally recognized statistical rating organization that currently rates such Asset-Backed Security higher than the credit rating assigned by such rating organization to such Asset-Backed Security determined without giving effect to such insurance policy, guarantee or other similar instrument, *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Type of Asset-Backed Security.

"Low-Diversity CBO Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a portfolio of asset-backed securities or corporate debt securities or any combination of the foregoing, generally having the following characteristics: (1) the debt securities have varying contractual

maturities; (2) the securities are obligations of a pool of obligors or issuers that represent a relatively undiversified pool of obligor credit risk having a Moody's diversity score of 20 or lower; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual debt securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of securities bearing interest at a fixed rate, such securities include an effective prepayment premium; and (4) proceeds from such repayments can for a limited period and subject to compliance with certain Reinvestment Criteria be reinvested in additional debt securities.

"Manufactured Housing Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from manufactured housing (also known as mobile homes and prefabricated homes) installment sales contracts and installment loan agreements, generally having the following characteristics: (1) the contracts and loan agreements have varying, but typically lengthy contractual maturities; (2) the contracts and loan agreements are secured by the manufactured homes and, in certain cases, by mortgages and/or deeds of trust on the real estate to which the manufactured homes are deemed permanently affixed; (3) the contracts and/or loans are obligations of a large number of obligors and accordingly represent a relatively diversified pool of obligor credit risk; (4) repayment thereof can vary substantially from the contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (5) in some cases, obligations are fully or partially guaranteed by a governmental agency or instrumentality.

"Mutual Fund Fee Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of brokerage fees and costs relating to various mutual funds, generally having the following characteristics: (1) the brokerage arrangements have standardized payment terms and require minimum payments; (2) the brokerage fees and costs arise out of numerous mutual funds and accordingly represent a very diversified pool of credit risk; and (3) the collection of brokerage fees and costs can vary substantially from the contractual payment schedule (if any), with collection depending on numerous factors specific to the particular mutual funds, interest rates and general economic matters.

"Oil and Gas Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from (a) a pool of franchise loans made to operators of franchises that provide oil and gasoline and provide other services related thereto and (b) leases or subleases of equipment to such operators for use in the provision of such goods and services. They generally have the following characteristics: (1) the loans, leases or subleases have varying contractual maturities; (2) the loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the obligations of the lessors or sublessors of the equipment may be secured not only by the leased equipment but also the related real estate; (4) the loans, leases and subleases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment of the loans can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; (6) the

repayment stream on the leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, a sublessee or third party of the underlying equipment; (7) such leases and subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of a lease term for excess usage or wear and tear; and (8) the ownership of a franchise right or other similar license and the creditworthiness of such franchise operators is the primary factor in any decision to invest in these securities.

"Project Finance Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from (1) the sale of products, such as electricity, nuclear energy, steam or water, in the utility industry by a special purpose entity formed to own the assets generating or otherwise producing such products and such assets were or are being constructed or otherwise acquired primarily with the proceeds of debt financing made available to such entity on a limited-recourse basis (including recourse to such assets and the land on which they are located) or (2) fees or other usage charges, such as tolls collected on a highway, bridge, tunnel or other infrastructure project, collected by a special purpose entity formed to own one or more such projects that were constructed or otherwise acquired primarily with the proceeds of debt financing made available to such entity on a limited-recourse basis (including recourse to the project and the land on which it is located).

"Recreational Vehicle Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from installment sale loans made to finance the acquisition of, or from leases of, recreational vehicles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessees and accordingly represent a very diversified pool of obligor credit risk; (3) the borrowers or lessees under the loans or leases generally do not have a poor credit rating; (4) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and (5) such leases typically provide for the right of the lessee to purchase the recreational vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"Reinsurance Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend in part on the premiums from reinsurance policies held by a special purpose vehicle created for such purpose, generally having the following characteristics: (1) proceeds from the security are invested in a collateral account; (2) such collateral account is subject to claims from the reinsurance policies; and (3) the repayment of principal on the security is dependent on the exercise of the reinsurance policies.

"REIT Debt Securities—Diversified" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of mortgages on a portfolio of diverse real property interests, *provided* that (a) any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security and (b) any Asset-Backed Security falling with any other REIT Debt Security description set forth herein shall be excluded from this definition.

"REIT Debt Securities—Health Care" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of mortgages on hospitals, clinics, sport clubs, spas and other health care facilities and other similar real property interests used in one or more similar businesses, *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

"REIT Debt Securities—Hotel" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of mortgages on hotels, motels, youth hostels, bed and breakfasts and other similar real property interests used in one or more similar businesses, *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

"REIT Debt Securities—Industrial" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of mortgages on factories, refinery plants, breweries and other similar real property interests used in one or more similar businesses, *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

"REIT Debt Securities—Mortgage" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of mortgages, commercial mortgage-backed securities, collateralized mortgage obligations and other similar mortgage-related securities (including Asset-Backed Securities issued by a hybrid form of such trust that invests in both commercial real estate and commercial mortgages), *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

"REIT Debt Securities—Multi-Family" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of residential mortgages on multi-family dwellings such as apartment blocks, condominiums and co-operative owned buildings, *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

"REIT Debt Securities—Office" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of mortgages on office buildings, conference facilities and other similar real property interests used in the commercial real estate business, *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

"REIT Debt Securities—Residential" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets

consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of residential mortgages (other than multi-family dwellings) and other similar real property interests, *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

"REIT Debt Securities—Retail" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of mortgages on retail stores, restaurants, bookstores, clothing stores and other similar real property interests used in one or more similar businesses, *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

"REIT Debt Securities—Storage" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) of storage facilities and other similar real property interests used in one or more similar businesses, *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

"Residential A Mortgage Securities" means Asset-Backed Securities (other than Residential B/C Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (single or multi-family properties) the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics: (1) the mortgage loans have generally been underwritten to the standards of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (without regard to the size of the loan); (2) the mortgage loans have standardized payment terms and require minimum monthly payments; (3) the mortgage loans are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling.

"Residential B/C Mortgage Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by subprime residential real estate (single or multi-family properties) the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics: (1) the mortgage loans have generally not been underwritten to the standards of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (without regard to the size of the loan); (2) the mortgage loans have standardized payment terms and require minimum monthly payments; (3) the mortgage loans are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (4) the repayment of such

mortgage loans is subject to a contractual payment schedule, with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling.

"Restaurant and Food Service Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from (a) a pool of franchise loans made to operators of franchises that provide goods and services relating to the restaurant and food services industries and (b) leases or subleases of equipment to such operators for use in the provision of such goods and services. They generally have the following characteristics: (1) the loans, leases or subleases have varying contractual maturities; (2) the loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the obligations of the lessors or sublessors of the equipment may be secured not only by the leased equipment but also the related real estate; (4) the loans, leases and subleases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment of the loans can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; (6) the repayment stream on the leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, a sublessee or third party of the underlying equipment; (7) such leases and subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of a lease term for excess usage or wear and tear; and (8) the ownership of a franchise right or other similar license and the creditworthiness of such franchise operators is the primary factor in any decision to invest in these securities.

"Small Business Loan Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from general purpose corporate loans made to "small business concerns" (generally within the meaning given to such term by regulations of the United States Small Business Administration), including those (a) made pursuant to Section 7(a) of the United States Small Business Act, as amended, and (b) partially guaranteed by the United States Small Business Administration. Small Business Loan Securities generally have the following characteristics: (1) the loans have payment terms that comply with any applicable requirements of the Small Business Act, as amended; (2) the loans are obligations of a relatively limited number of borrowers and accordingly represent an undiversified pool of obligor credit risk; and (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium.

"Structured Settlement Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from receivables representing the right of litigation claimants to receive future scheduled payments under settlement agreements that are funded by annuity contracts, which receivables may have varying maturities.

"Student Loan Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or

timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from loans made to students (or their parents) to finance educational needs, generally having the following characteristics: (1) the loans have standardized terms; (2) the loans are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; (3) the repayment stream on such loans is primarily determined by a contractual payment schedule, with early repayment on such loans predominantly dependent upon interest rates and the income of borrowers following the commencement of amortization; and (4) such loans may be fully or partially insured or reinsured by the United States Department of Education.

"Subprime Automobile Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from subprime installment sale loans made to finance the acquisition of, or from leases of, automobiles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessors and accordingly represent a very diversified pool of obligor credit risk; (3) the borrowers or lessors under the loans or leases have a poor credit rating; (4) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and (5) such leases typically provide for the right of the lessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"Tax Lien Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of tax obligations owed by businesses and individuals to state and municipal governmental taxing authorities, generally having the following characteristics: (1) the obligations have standardized payment terms and require minimum payments; (2) the tax obligations are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (3) the repayment stream on the obligation is primarily determined by a payment schedule entered into between the relevant tax authority and obligor, with early repayment on such obligation predominantly dependent upon interest rates and the income of the obligor following the commencement of amortization.

"Time Share Securities" means Asset-Backed Securities (other than Residential A Mortgage Securities, Residential B/C Mortgage Securities and Home Equity Loan Securities) that entitle the holders thereof to receive payments that depend primarily on the cash flow from residential mortgage loans (secured on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate the proceeds of which were used to purchase fee simple interests in timeshare estates in units in a condominium, generally having the following characteristics: (1) the mortgage loans have standardized payment terms and require minimum monthly payments; (2) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

"Tobacco Settlement Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from receivables representing the right of litigation claimants in legal actions related to tobacco products to receive future scheduled payments under settlement agreements that are funded by annuity contracts, which receivables may have varying maturities.

The Specified Types of Asset-Backed Securities set forth above are divided into the following categories:

"ABS Type Diversified Securities" means (1) Automobile Securities; (2) Car Rental Receivable Securities; (3) Credit Card Securities; (4) Equipment Leasing Securities; (5) Recreational Vehicle Securities; (6) Student Loan Securities; (7) Time Share Securities and (8) any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as "ABS Type Diversified Securities" in connection therewith.

"ABS Type Residential Securities" means (1) Home Equity Loan Securities; (2) Manufactured Housing Securities; (3) Residential A Mortgage Securities; (4) Residential B/C Mortgage Securities; and (5) any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as "ABS Type Residential Securities" in connection therewith.

"ABS Type Undiversified Securities" means each Specified Type of Asset-Backed Securities, other than (a) ABS Type Diversified Securities or (b) ABS Type Residential Securities; and any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as "ABS Type Undiversified Securities" in connection therewith.

"CBO Securities" means (1) High-Diversity CBO Securities and (2) Low-Diversity CBO Securities.

After the Closing Date, any other type of Asset-Backed Security may be designated as a "Specified Type" (and designated as an "ABS Type Diversified Security", an "ABS Type Residential Security" or an "ABS Type Undiversified Security") in a notice from the Collateral Manager to the Trustee so long as Moody's has confirmed in writing to the Issuer, the Trustee and the Collateral Manager that such designation satisfies the Rating Condition. If any type of Asset-Backed Security shall be so designated as an additional Specified Type, the definition of each Specified Type of Asset-Backed Security in existence prior to such designation shall be construed to exclude such newly-designated Specified Type of Asset-Backed Security.

"ABS Franchise Securities" means (1) Oil and Gas Securities and (2) Restaurant and Food Service Securities, to the extent that such Oil and Gas Securities or Restaurant and Food Service Securities entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from a pool of franchise loans made to operators of franchises.

"ABS REIT Debt Securities" means (1) ABS REIT Debt Securities—Diversified, (2) ABS REIT Debt Securities—Health Care, (3) ABS REIT Debt Securities—Hotel, (4) ABS REIT Debt Securities—Industrial, (5) ABS REIT Debt Securities—Multi-Family, (6) ABS REIT Debt Securities—Office, (7) ABS REIT Debt Securities—Retail, (8) ABS REIT Debt Securities—Residential and (9) ABS REIT Debt Securities—Storage.

Synthetic Securities

A portion of the Collateral Debt Securities may consist of Synthetic Securities. "Synthetic Security" means any swap transaction, credit linked note, credit derivative structured bond investment or other investment purchased from, or entered into by, the Issuer with a Synthetic Security Counterparty which investment contains a probability of default, recovery upon default (or a specific percentage of par not less than the principal balance thereof multiplied by the recovery rate therefor) and expected loss characteristics closely correlated to one or more Reference Obligations, but which may provide for a different maturity, interest rate or other non-credit characteristics than such Reference Obligation(s); *provided* that (a) such Synthetic Security shall not provide for any payment by the Issuer after the date on which it is pledged to the Trustee, (b) such Synthetic Security terminates no later than the redemption or repayment in full of such Reference Obligation(s), (c) such Synthetic Security has a rating, the Rating Condition has been satisfied and the Trustee has been notified in writing of the recovery rate assigned by each Rating Agency and (d) such Synthetic Security does not permit delivery to the Issuer of an obligation or security that would not have qualified as a Collateral Debt Security. "Synthetic Security Counterparty" means any entity that (i) is required to make payments on a Synthetic Security to the extent that a Reference Obligor makes payments on a related Reference Obligation and (ii) on the date such Synthetic Security is acquired by the Issuer, is rated at least "Aa2" by Moody's, at least "AA" by Standard & Poor's, and at least "AA" by Fitch and the selection of such entity satisfies the Rating Condition. "Reference Obligation" means any CDO Obligation or Other ABS in respect of which the Issuer has obtained a Synthetic Security. "Reference Obligor" means the obligor on a Reference Obligation. For purposes of determining the principal balance of a Synthetic Security at any time, the principal balance of such Synthetic Security shall be equal to the aggregate amount of the repayment obligation of the Synthetic Security Counterparty payable to the Issuer through the maturity of such Synthetic Security.

Investments in Synthetic Securities present risks in addition to those associated with other types of Collateral Debt Securities. See "Risk Factors—Nature of Collateral" and "—Synthetic Securities".

The Collateral Quality Tests

The "Collateral Quality Tests" will be used primarily as criteria for purchasing Collateral Debt Securities. See "—Reinvestment Criteria". The Collateral Quality Tests will consist of the Diversity Test, the Fitch Weighted Average Rating Factor Test, the Moody's Maximum Rating Distribution Test, the Moody's Minimum Weighted Average Recovery Rate Test, the Weighted Average Coupon Test, the Weighted Average Spread Test, the Weighted Average Life Test and the Standard & Poor's Minimum Recovery Rate Test described below.

Measurement of the degree of compliance with the Collateral Quality Tests will be required, after the Ramp-Up Completion Date, on each day on which the Issuer purchases a Collateral Debt Security. Except as otherwise provided below under "Diversity Test", for purposes of the Diversity Test a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the related Reference Obligation (and the issuer thereof will be deemed to be the related Reference Obligor) and not of the Synthetic Security. For purposes of the Collateral Quality Tests other than the Diversity Test, or for determining the Moody's Rating of a Synthetic Security, a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the Synthetic Security and not of the related Reference Obligation.

Diversity Test The "Diversity Test" will be satisfied on any Measurement Date if the Diversity Score on such Measurement Date is equal to or greater than (a) for the period from and including the

Closing Date to but excluding the Ramp-Up Test Date, 10, (b) thereafter to but excluding the Ramp-Up Completion Date, 12 and (c) thereafter, the Designated Minimum Diversity Score for the Ratings Matrix in effect on such Measurement Date.

"Designated Minimum Diversity Score" means on any Measurement Date the designated minimum Diversity Score as indicated on the Ratings Matrix.

The default risk of Asset-Backed Securities and REIT Debt Securities is assumed by the Rating Agencies to be more highly correlated with other Asset-Backed Securities or REIT Debt Securities when compared to the correlation of default risk among a pool of corporate bonds of unaffiliated issuers in many different industry groups. To analyze collateral assets from sectors with correlated default risk, Moody's has developed an alternative Diversity Score method. The formula used to calculate the Diversity Score under this alternative methodology is set forth below.

$$D = \frac{\sum_{i=1}^n p_i F_i}{\sum_{i=1}^n \sum_{j=1}^n \rho_{ij} \sqrt{p_i q_i p_j q_j} F_i F_j}$$

where p_i equals the expected loss percentage divided by the loss rate percentage.

First, Moody's assumes that the actual portfolio consists of n bonds; bond i has a face value F_i , and a default probability p_i that is implied by the rating and maturity of the bond. The probability of survival for bond i is q_i , which equals $1 - p_i$. In addition, the correlation coefficient of default between bond i and j is ρ_{ij} .

To calculate the alternative Diversity Score, portfolio parameters need to be input, including the rating profile, the par amount, the maturity profile and the default correlation assumptions.

The portfolio of Collateral Debt Securities used to calculate the alternative Diversity Score shall not include Interest Only Securities and CBO Securities that entitle the holders thereof to receive payments that do not depend primarily on Asset-Backed Securities or REIT Debt Securities.

In addition, Moody's assumes that the default correlation is associated with the credit quality of the collateral. For example, the default correlation among investment-grade Asset-Backed Securities and REIT Debt Securities is lower than the default correlation among below investment-grade Asset-Backed Securities and REIT Debt Securities. Finally, the cross correlation of defaults among various types of Asset-Backed Securities and REIT Debt Securities plays an important role as well. In order to take account of issuer concentration and vintage effects, the following assumptions apply:

- (a) If two Asset-Backed Securities are guaranteed by the same guarantor, assume a 100% correlation between them.
- (b) If two Asset-Backed Securities are managed by the same collateral manager, assume a 100% correlation between them.
- (c) If two Asset-Backed Securities are issued in the same transaction and neither of them is guaranteed, assume a 100% correlation between them.
- (d) If two Asset Backed Securities are issued in the same transaction and only one of them is guaranteed, then no adjustment need be made.

- (e) If two Asset-Backed Securities are not supported by the same collateral and are of different Specified Types, then no adjustment need be made.
- (f) If two Asset-Backed Securities have a Moody's Rating of at least "Baa3" and are not supported by the same collateral and are of the same Specified Type and the same person transferred, or arranged for the transfer of, such collateral to the issuer or issuers of such Asset-Backed Securities, assume a 75% correlation between them if they are issued within one year of one another, 50% correlation between them if they are not issued within one year of one another but are issued within two years of one another and a 25% correlation otherwise.
- (g) If two Asset-Backed Securities have a Moody's Rating below "Baa3" and are not supported by the same collateral and are of the same Specified Type the same person transferred, or arranged for the transfer of, such collateral to the issuer or issuers of such Asset-Backed Securities, assume a 100% correlation between them if they are issued within one year of one another, 70% correlation between them if they are not issued within one year of one another but are issued within two years of one another and a 40% correlation otherwise.
- (h) If two Asset-Backed Securities are market-value CBO Securities of the same Specified Type, assume a 100% correlation between them.
- (i) If the security is a Deferred Interest PIK Security, use the accreted value.
- (j) If the security is a Written Down Security, use a written down value as specified in the Indenture.
- (k) F_i shall be determined in the manner specified in the Indenture.
- (l) For the expected loss calculation, if the Average Life of the security falls between two values, then the expected loss is calculated using a linear interpolation method.
- (m) For the expected loss calculation, Collateral Debt Securities with a Moody's Rating less than "Caa3" will be applied an expected loss of 100%.
- (n) The Moody's Rating of each Collateral Debt Security used in the Moody's recovery rate matrix is the initial rating at the time of issuance of such Collateral Debt Security. The Moody's Rating used in the expected loss calculation is the Moody's Rating on the Measurement Date.

Moody's Maximum Rating Distribution Test The "Moody's Maximum Rating Distribution Test" will be satisfied on any Measurement Date if the Moody's Maximum Rating Distribution of the Collateral Debt Securities as of such Measurement Date is less than or equal to (a) for the period from and including the Closing Date to but excluding the Ramp-Up Completion Date, 400 and (b) thereafter, the Designated Moody's Maximum Rating Distribution for the Ratings Matrix in effect on such Measurement Date. If the "Moody's Maximum Rating Distribution" on any Measurement Date is the number determined by dividing (i) the summation of the series of products obtained (a) for any Collateral Debt Security that is not a Defaulted Security or Deferred Interest PIK Security, by multiplying (1) the principal balance on such Measurement Date of each such Collateral Debt Security by (2) its respective Moody's Rating Factor on such Measurement Date and (b) for any Deferred Interest PIK Security, by multiplying (1) the Calculation Amount for such Deferred Interest PIK Security on such Measurement Date by (2) its respective Moody's Rating Factor on such

Measurement Date by (ii) the sum of (a) the aggregate principal balance on such Measurement Date of all Collateral Debt Securities that are not Defaulted Securities or Deferred Interest PIK Securities plus (b) the sum of the Calculation Amounts of each Deferred Interest PIK Security on such Measurement Date and rounding the result up to the nearest whole number. For the purpose of determining the Moody's Maximum Rating Distribution, the Applicable Recovery Rate used to determine the Calculation Amount of a Deferred Interest PIK Security shall be the Applicable Recovery Rate determined pursuant to clause (a) of the definition of "Applicable Recovery Rate".

The "Moody's Rating Factor" relating to any Collateral Debt Security is the number set forth in the table below opposite the Moody's Rating of such Collateral Debt Security:

Moody's Rating	Moody's Rating Factor	Moody's Rating	Moody's Rating Factor
Aaa	1	Ba1	940
Aa1	10	Ba2	1,350
Aa2	20	Ba3	1,766
Aa3	40	B1	2,220
A1	70	B2	2,720
A2	120	B3	3,490
A3	180	Caa1	4,770
Baa1	260	Caa2	6,500
Baa2	360	Caa3	8,070
Baa3	610	Ca or lower	10,000

For purposes of the Moody's Maximum Rating Distribution Test, if a Collateral Debt Security does not have a Moody's Rating assigned to it at the date of acquisition, the Moody's Rating Factor with respect to such Collateral Debt Security shall be 10,000 for a period of 90 days from the acquisition of such Collateral Debt Security. After such 90-day period, if such Collateral Debt Security is not rated by Moody's and no other security or obligation of the issuer thereof or obligor thereon is rated by Moody's and the Issuer or the Collateral Manager seeks to obtain an estimate of a Moody's Rating Factor, then the Moody's Rating Factor of such Collateral Debt Security will be deemed to be such estimate thereof as may be assigned by Moody's upon the request of the Issuer or the Collateral Manager.

The "Moody's Rating" of any Collateral Debt Security will be determined as follows:

- (i) (a) if such Collateral Debt Security is publicly rated by Moody's, the Moody's Rating shall be such rating, or (b) if such Collateral Debt Security is not publicly rated by Moody's, but the Issuer or the Collateral Manager on behalf of the Issuer has requested that Moody's assign a rating to such Collateral Debt Security, the Moody's Rating shall be the rating so assigned by Moody's; *provided* that other than for the purposes of paragraphs (2), (11) and (12) of the Reinvestment Criteria, if a Collateral Debt Security (x) is placed on a watch list for possible upgrade by Moody's, the Moody's Rating applicable to such Collateral Debt Security shall be one rating subcategory above the Moody's Rating applicable to such Collateral Debt Security immediately prior to such Collateral Debt Security being placed on such watch list and (y) if a Collateral Debt Security is placed on a watch list for possible downgrade by Moody's, the Moody's Rating applicable to such Collateral Debt Security shall be one rating subcategory

below the Moody's Rating applicable to such Collateral Debt Security immediately prior to such Collateral Debt Security being placed on such watch list, *provided further*, that if such Collateral Debt Security has not been upgraded or downgraded, as applicable, within four months of being placed on such watch list, the Moody's Rating for such Collateral Debt Security shall be the then-current published rating.

(ii) with respect to an Asset-Backed Security, if such Asset-Backed Security is not rated by Moody's, then the Moody's Rating of such Asset-Backed Security may be determined using any one of the methods below:

- (A) with respect to any ABS Type Residential Security not publicly rated by Moody's, if such ABS Type Residential Security is publicly rated by Standard & Poor's, then the Moody's Rating thereof will be (i) one subcategory below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is "AAA"; (ii) two rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is "AA-", "AA" or "AA+"; and (iii) three rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is below "AA-";
- (B) with respect to any CMBS Conduit Security or CMBS Credit Tenant Lease Security not publicly rated by Moody's, (x) if Moody's has rated a tranche or class of CMBS Conduit Security or CMBS Credit Tenant Lease Security senior to the relevant Issue, then the Moody's Rating thereof shall be one and one-half rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's and (y) if Moody's has not rated any such tranche or class and Standard & Poor's has rated the subject CMBS Conduit Security or CMBS Credit Tenant Lease Security, then the Moody's Rating thereof will be two rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's; and
- (C) with respect to any other type of Asset-Backed Securities designated as a Specified Type after the date hereof upon notification from the Collateral Manager to the Trustee and written confirmation by Moody's to the Issuer, the Trustee and the Collateral Manager that such designation satisfies the Rating Condition, pursuant to any method specified by Moody's;

(iii) with respect to corporate guarantees on Asset-Backed Securities, if such corporate guarantees are not publicly rated by Moody's but another security or obligation of the guarantor or obligor (an "other security") is publicly rated by Moody's, and no rating has been assigned in accordance with clause (a)(i), the Moody's Rating of such Collateral Debt Security shall be determined as follows:

- (A) if the corporate guarantee is a senior secured obligation of the guarantor or obligor and the other security is also a senior secured obligation, the Moody's Rating of such Collateral Debt Security shall be the rating of the other security;
- (B) if the corporate guarantee is a senior unsecured obligation of the guarantor or obligor and the other security is a senior secured obligation, the Moody's Rating of such Collateral Debt Security shall be one rating subcategory below the rating of the other security;

- (C) if the corporate guarantee is a subordinated obligation of the guarantor or obligor and the other security is a senior secured obligation:
 - (1) rated "Ba3" or higher by Moody's, the Moody's Rating of such corporate guarantee shall be three rating subcategories below the rating of the other security; or
 - (2) rated "B1" or lower by Moody's, the Moody's Rating of such corporate guarantee shall be two rating subcategories below the rating of the other security;
- (D) if the corporate guarantee is a senior secured obligation of the guarantor or obligor and the other security is a senior unsecured obligation that is:
 - (1) rated "Baa3" or higher by Moody's, the Moody's Rating of such corporate guarantee shall be the rating of the other security; or
 - (2) rated "Ba1" or lower by Moody's, the Moody's Rating of such corporate guarantee shall be one rating subcategory above the rating of the other security;
- (E) if the corporate guarantee is a senior unsecured obligation of the guarantor or obligor and the other security is also a senior unsecured obligation, the Moody's Rating of such corporate guarantee shall be the rating of the other security;
- (F) if the corporate guarantee is a subordinated obligation of the guarantor or obligor and the other security is a senior unsecured obligation that is:
 - (1) rated "B1" or higher by Moody's, the Moody's Rating of such corporate guarantee shall be two rating subcategories below the rating of the other security; or
 - (2) rated "B2" or lower by Moody's, the Moody's Rating of such corporate guarantee shall be one rating subcategory below the rating of the other security;
- (G) if the corporate guarantee is a senior secured obligation of the guarantor or obligor and the other security is a subordinated obligation that is:
 - (1) rated "Baa3" or higher by Moody's, the Moody's Rating of such corporate guarantee shall be one rating subcategory above the rating of the other security;
 - (2) rated below "Baa3" but not rated "B3" by Moody's, the Moody's Rating of such corporate guarantee shall be two rating subcategories above the rating of the other security; or
 - (3) rated "B3" by Moody's, the Moody's Rating of such corporate guarantee shall be "B2";

- (H) if the corporate guarantee is a senior unsecured obligation of the guarantor or obligor and the other security is a subordinated obligation that is:
 - (1) rated "Baa3" or higher by Moody's, the Moody's Rating of such corporate guarantee shall be one rating subcategory above the rating of the other security; or
 - (2) rated "Ba1" or lower by Moody's, the Moody's Rating of such corporate guarantee shall also be one rating subcategory above the rating of the other security; and
 - (I) if the Collateral Debt Security is a subordinated obligation of the guarantor or obligor and the other security is also a subordinated obligation, the Moody's Rating of such corporate guarantee shall be the rating of the other security; and
- (iv) with respect to corporate guarantees issued by U.S., U.K. or Canadian guarantors or by any other Qualifying Foreign Obligor, if such corporate guarantee is not publicly rated by Moody's, and no other security or obligation of the guarantor is rated by Moody's, then the Moody's Rating of such corporate guarantee may be determined using any one of the methods below:
- (A)
 - (1) if such corporate guarantee is publicly rated by Standard & Poor's, then the Moody's Rating of such corporate guarantee will be (x) one rating subcategory below the Moody's equivalent of the rating assigned by Standard & Poor's if such security is rated "BBB-" or higher by Standard & Poor's and (y) two subcategories below the Moody's equivalent of the rating assigned by Standard & Poor's if such security is rated "BB+" or lower by Standard & Poor's; and
 - (2) if such corporate guarantee is not publicly rated by Standard & Poor's but another security or obligation of the guarantor is publicly rated by Standard & Poor's (a "parallel security"), then the Moody's equivalent of the rating of such parallel security will be determined in accordance with the methodology set forth in subclause (1) above, and the Moody's Rating of such corporate guarantee will be determined in accordance with the methodology set forth in clause (ii) above (for such purpose treating the parallel security as if it were rated by Moody's at the rating determined pursuant to this subclause (2));
 - (B) if such corporate guarantee is not publicly rated by Moody's or Standard & Poor's, and no other security or obligation of the guarantor is publicly rated by Moody's or Standard & Poor's, then the Issuer or the Collateral Manager on behalf of the Issuer, may present such corporate guarantee to Moody's for an estimate of such Collateral Debt Security's rating factor, from which its corresponding Moody's rating may be determined, which shall be its Moody's Rating;
 - (C) with respect to a corporate guarantee issued by a U.S. corporation, if (1) neither the guarantor nor any of its affiliates is subject to reorganization or bankruptcy proceedings, (2) no debt securities or obligations of the guarantor are in default, (3) neither the guarantor nor any of its affiliates have defaulted on any debt

during the past two years, (4) the guarantor has been in existence for the past five years, (5) the guarantor is current on any cumulative dividends, (6) the fixed-charge ratio for the guarantor exceeds 125% for each of the past two fiscal years and for the most recent quarter, (7) the guarantor had a net profit before tax in the past fiscal year and the most recent quarter and (8) the annual financial statements of the guarantor are unqualified and certified by a firm of independent accountants of national reputation, and quarterly statements are unaudited but signed by a corporate officer, the Moody's Rating of such corporate guarantee will be "B3";

- (D) with respect to a corporate guarantee issued by a non-U.S. guarantor, if (1) neither the guarantor nor any of its affiliates is subject to reorganization or bankruptcy proceedings and (2) no debt security or obligation of the guarantor has been in default during the past two years, the Moody's Rating of such Collateral Debt Security will be "Caa2"; and
- (E) if a debt security or obligation of the guarantor has been in default during the past two years, the Moody's Rating of such Collateral Debt Security will be "Ca";

provided that (x) the rating of any Rating Agency used to determine the Moody's Rating pursuant to any of clauses (i), (ii), (iii) or (iv) above shall be a rating that addresses the obligation of the obligor (or guarantor, where applicable) to pay principal of and interest on the relevant Collateral Debt Security in full and is monitored on an ongoing basis by the relevant Rating Agency, (y) the aggregate principal balance of Collateral Debt Securities the Moody's Rating of which is based on the rating of another Rating Agency may not exceed 10% of the aggregate principal balance of all Collateral Debt Securities and (z) the aggregate principal balance of Collateral Debt Securities the Moody's Rating of which is based on solely on either a Standard & Poor's Rating or a Fitch Rating may not exceed 7.5% of the aggregate principal balance of all Collateral Debt Securities.

A "Qualifying Foreign Obligor" is a corporation, partnership or other entity organized or incorporated under the laws of any of Australia, Canada, France, Germany, Ireland, New Zealand, Sweden, Switzerland or the United Kingdom, so long as the unguaranteed, unsecured and otherwise unsupported long-term U.S. Dollar sovereign debt obligations of such country are rated "Aa2" or better by Moody's and "AA" or better by Standard & Poor's and "AA" or better by Fitch.

Fitch Weighted Average Rating Factor Test. The "Fitch Weighted Average Rating Factor Test" will be satisfied on any Measurement Date if the Fitch Weighted Average Rating Factor of the Collateral Debt Securities does not exceed 4.75. The "Fitch Weighted Average Rating Factor" is the number determined by the Collateral Manager on behalf of the Issuer on any Measurement Date by dividing (i) the summation of the series of products obtained (a) for any pledged Collateral Debt Security that is not a Defaulted Security or Deferred Interest PIK Security, by multiplying (1) the principal balance on such Measurement Date of each such pledged Collateral Debt Security by (2) its respective Fitch Rating Factor on such Measurement Date and (b) for any Defaulted Security or Deferred Interest PIK Security, by multiplying (1) the Applicable Recovery Rate (determined for purposes of this definition pursuant to clause (c) of the definition of "Applicable Recovery Rate" for such Defaulted Security or Deferred Interest PIK Security by (2) the principal balance on such Measurement Date of each such Defaulted Security or Deferred Interest PIK Security by (3) its respective Fitch Rating Factor on such Measurement Date by (ii) the sum of (a) the aggregate principal balance on such Measurement Date of all Collateral Debt Securities that are not Defaulted Securities or Deferred Interest PIK Securities plus (b) the summation of the series of products

obtained by multiplying (1) the Applicable Recovery Rate (determined for purposes of this definition pursuant to clause (c) of the definition of "Applicable Recovery Rate" for each Defaulted Security or Deferred Interest PIK Security by (2) the principal balance on such Measurement Date of such Defaulted Security or Deferred Interest PIK Security, and rounding the result up to the nearest hundredth decimal.

The "Fitch Rating Factor" relating to any Collateral Debt Security is the number set forth in the table below opposite the Fitch Rating of such Collateral Debt Security:

Fitch Rating	Fitch Rating Factor	Fitch Rating	Fitch Rating Factor
AAA	0.19	BB	13.53
AA+	0.57	BB-	18.46
AA	0.89	B+	22.84
AA-	1.15	B	27.67
A+	1.65	B-	34.98
A	1.85	CCC+	43.36
A-	2.44	CCC	48.52
BBB+	3.13	CC	77.00
BBB	3.74	C	95.00
BBB-	7.26	DDD-D	100.00
BB+	10.18		

The "Fitch Rating" of any Collateral Debt Security as of any date of determination will be determined as follows:

- (i) if such Collateral Debt Security is rated by Fitch, the Fitch Rating shall be such rating;
- (ii) if such Collateral Debt Security is not rated by Fitch and a rating is published by both Standard & Poor's and Moody's, the Fitch Rating shall be the lower of such ratings; and if a rating is published by only one of Standard & Poor's and Moody's, the Fitch Rating shall be that published rating by Standard & Poor's or Moody's, as the case may be;
- (iii) if such Collateral Debt Security is a Synthetic Security, the Fitch Rating of such Synthetic Security shall be the rating assigned thereto by Fitch in connection with the acquisition thereof by the Issuer upon request of the Issuer or the Collateral Manager; and
- (iv) in all other circumstances, the Fitch Rating shall be the private rating assigned by Fitch upon request of the Collateral Manager.

provided, that (x) if such Collateral Debt Security has been put on rating watch negative for possible downgrade by any Rating Agency, then the rating used to determine the Fitch Rating under either of clauses (i) or (ii) above shall be one rating subcategory below such rating by that Rating Agency, and (y) if such Collateral Debt Security has been put on rating watch positive for possible upgrade by any Rating Agency, then the rating used to determine the Fitch Rating under either of clauses (i) or (ii) above shall be one rating subcategory above such rating by that Rating Agency, and (z) notwithstanding the rating definition described

above, Fitch reserves the right to issue a rating estimate for any Collateral Debt Security at any time.

The "Standard & Poor's Rating" of any Collateral Debt Security will be determined as follows:

- (i) if Standard & Poor's has assigned a rating to such Collateral Debt Security either publicly or privately (in the case of a private rating, with the appropriate consents for the use of such private rating), the Standard & Poor's Rating shall be the rating assigned thereto by Standard & Poor's (or, in the case of a REIT Debt Security, the issuer credit rating assigned by Standard & Poor's), *provide that*, notwithstanding the foregoing, if any Collateral Debt Security shall, at the time of its purchase by the Issuer, be listed for a possible upgrade or downgrade on Standard & Poor's then current credit rating watch list, then the Standard & Poor's Rating of such Collateral Debt Security shall be one subcategory above or below, respectively, the rating then assigned to such item by Standard & Poor's, as applicable; *provided* that if such Collateral Debt Security is removed from such list at any time, it shall be deemed to have its actual rating by Standard & Poor's;
- (ii) if such Collateral Debt Security is not rated by Standard & Poor's but the Issuer or the Collateral Manager on behalf of the Issuer has requested that Standard & Poor's assign a rating to such Collateral Debt Security, the Standard & Poor's Rating shall be the rating so assigned by Standard & Poor's; *provided* that pending receipt from Standard & Poor's of such rating, if such Collateral Debt Security is of a type listed on Schedule F or is not eligible for notching in accordance with Schedule E, such Collateral Debt Security shall have a Standard & Poor's Rating of "CCC-", otherwise such Standard & Poor's Rating shall be the rating assigned according to Schedule F until such time as Standard & Poor's shall have assigned a rating thereto; or
- (iii) if any Collateral Debt Security is a Collateral Debt Security that has not been assigned a rating by Standard & Poor's and is not a Collateral Debt Security listed in Schedule E, as identified by the Collateral Manager, refer to Schedule F to determine the Standard & Poor's Rating; *provided* that if any Collateral Debt Security shall, at the time of its purchase by the Issuer, be listed for a possible upgrade or downgrade on either Moody's or Fitch's then current credit rating watch list, then the Standard & Poor's Rating of such Collateral Debt Security shall be one subcategory above or below, respectively, the rating then assigned to such item by Standard & Poor's in accordance with Schedule F;

provided further, that the aggregate principal balance that may be given a rating based on subclause (iii) may not exceed 20% of the aggregate principal balance of all Collateral Debt Securities.

Moody's Minimum Weighted Average Recovery Rate Test The "Moody's Minimum Weighted Average Recovery Rate Test" will be satisfied as of any Measurement Date, if the Moody's Weighted Average Recovery Rate is greater than or equal to 27%.

The "Moody's Weighted Average Recovery Rate" is the number obtained by summing the products obtained by multiplying the principal balance of each Collateral Debt Security by its "Applicable Recovery Rate" (determined for purposes of this definition pursuant to clause (a) of the definition of "Applicable Recovery Rate"), dividing such sum by the aggregate principal balance of all such Collateral Debt Securities and rounding up to the first decimal place. For purposes of the

Moody's Weighted Average Recovery Rate, the principal balance of a Defaulted Security or a Deferred Interest PIK Security will be deemed to be equal to its outstanding principal amount.

The "Fitch Sector" means, without limitation but subject to approval by Fitch, CMBS, RMBS Prime, RMBS Subprime, Real Estate, CDO of Corporates, CDO of Structured Assets, Consumer ABS, Commercial ABS-Small Business, Commercial ABS- Travel/Transportation, Commercial ABS-Other and Corporate.

"CMBS Securities" means CMBS Conduit Securities, CMBS Credit Tenant Lease Securities and CMBS Large Loan Securities.

"Commercial ABS Securities" includes, without limitation but subject to approval by Fitch, Aerospace and Defense Securities, Bank Guaranteed Securities, Equipment Leasing Securities, Healthcare Securities, Insurance Company Guaranteed Securities, Monoline Guaranteed Securities, Mutual Fund Fee Securities, Oil and Gas Securities, Small Business Loan Securities, Structured Settlement Securities and Tax Lien Securities.

"Consumer ABS Securities" includes, without limitation but subject to approval by Fitch, Automobile Securities, Car Rental Receivable Securities, Credit Card Securities, Recreational Vehicle Securities, Student Loan Securities and Time Share Securities.

"Ratings Matrix" means one of the matrices identified in the table below, which the Collateral Manager may designate from time to time as being applicable for purposes of determining compliance with the Diversity Test and the Moody's Maximum Rating Distribution Test:

Ratings Matrix	Designated Minimum Diversity Score	Designated Moody's Maximum Rating Distribution
1	14	360
2	15	380
3	16	400
4	17	430
5	18	445

On the Ramp-Up Completion Date, Ratings Matrix 3 shall apply except as provided in the next sentence. From and after the Ramp-Up Completion Date, on five Business Days' prior written notice to the Trustee, the Collateral Manager may elect to have a different Ratings Matrix apply so long as, immediately after giving effect to such change, both the Diversity Test and the Moody's Maximum Rating Distribution Test are satisfied. In no event will the Collateral Manager be obligated to elect to apply a different Ratings Matrix than the one most recently selected by the Collateral Manager.

"REIT Debt Securities" means (1) REIT Debt Securities—Diversified, (2) REIT Debt Securities—Health Care, (3) REIT Debt Securities—Hotel, (4) REIT Debt Securities—Industrial, (5) REIT Debt Securities—Mortgage, (6) REIT Debt Securities—Multi-Family, (7) REIT Debt Securities—Office, (8) REIT Debt Securities—Residential, (9) REIT Debt Securities—Retail and (10) REIT Debt Securities—Storage.

"RMBS Securities " means Residential A Mortgage Securities and Residential B/C Mortgage Securities.

Weighted Average Coupon Test The "Weighted Average Coupon Test" will be satisfied if the Weighted Average Coupon is equal to or greater than (i) 5.90% as of the Closing Date and thereafter to but excluding the Ramp-Up Test Date, (ii) 5.95% from the Ramp-Up Test Date and thereafter to but excluding the Ramp-Up Completion Date or (iii) 6.0% on the Ramp-Up Completion Date and thereafter.

The "Weighted Average Coupon" is, as of any date or Measurement Date, the sum (rounded up to the next 0.001%) of (a) the number obtained by (i) summing the products obtained by multiplying (x) the current interest rate on each Collateral Debt Security that is a fixed rate security (other than a Defaulted Security, Written Down Security, a Deferred Interest PIK Security or an Interest Only Security) by (y) the principal balance of such Collateral Debt Security and (ii) dividing such sum by the aggregate principal balance of all Collateral Debt Securities that are fixed rate securities (excluding all Defaulted Securities, Written Down Securities and Deferred Interest PIK Securities) plus (b) the number obtained by (i) summing the products obtained by multiplying (x) the imputed interest rate on each Qualifying Interest Only Security (computed relative to the principal amount that is the basis for the computation of interest payable on such Qualifying Interest Only Security) (excluding Defaulted Securities, Written Down Securities and Deferred Interest PIK Securities) that is a fixed rate security by (y) the principal amount that is the basis for the computation of interest payable on each such Qualifying Interest Only Security and (ii) dividing such sum by the aggregate principal balance of all Collateral Debt Securities that are fixed rate securities (excluding Defaulted Securities, Written Down Securities and Deferred Interest PIK Securities) plus (c) if such sum of the numbers obtained pursuant to clauses (a) and (b) is less than (i) 5.90% as of the Closing Date and thereafter to but excluding the Ramp-Up Test Date, (ii) 5.95% from the Ramp-Up Test Date and thereafter to but excluding the Ramp-Up Completion Date or (iii) 6.0% on the Ramp-Up Completion Date and thereafter, the Spread Excess, if any, as of such Measurement Date. For purposes of this definition, (1) a PIK Security shall be deemed to be a Deferred Interest PIK Security so long as any interest thereon has been deferred and capitalized for at least one payment date (until payment of interest on such PIK Security has resumed and all capitalized and deferred interest has been paid in accordance with the terms of the Underlying Instruments) and (2) no contingent payment of interest will be included in such calculation.

The "Spread Excess" as of any Measurement Date will equal a fraction (expressed as a percentage), the numerator of which is equal to the product of (a) the greater of zero and the excess, if any, of the Weighted Average Spread for such Measurement Date over (i) for the period from and including the Closing Date to but excluding the Ramp-Up Test Date, 2.10%, (ii) thereafter to but excluding the Ramp-Up Completion Date, 2.12% and (iii) thereafter, 2.15% and (b) the aggregate principal balance of all Floating Rate Securities (excluding Defaulted Securities, Written Down Securities or Deferred Interest PIK Securities) and the denominator of which is the aggregate principal balance of all fixed rate securities (excluding Defaulted Securities, Written Down Securities and Deferred Interest PIK Securities).

Weighted Average Price Test The "Weighted Average Price Test" means a test satisfied if the Aggregate Weighted Average Price is equal to or less than 99.9% on the Closing Date and thereafter to and including the Ramp-Up Completion Date.

"Aggregate Weighted Average Price" means, as of any date of determination, the quotient (expressed as a percentage) obtained by dividing (i) the sum of the products obtained by multiplying (a) the purchase price paid by the Issuer for each Collateral Debt Security (without taking into account

any interest accrued on such Collateral Debt Security prior to the date of acquisition by the Issuer) expressed as a percentage of the principal balance of such Collateral Debt Security by (b) the principal balance of such Collateral Debt Security by (ii) the aggregate principal balance of all Collateral Debt Securities.

Weighted Average Spread Test. The "Weighted Average Spread Test" will be satisfied if the Weighted Average Spread is equal to or greater than (i) 2.10% as of the Closing Date and thereafter to but excluding the Ramp-Up Test Date, (ii) 2.12% from the Ramp-Up Test Date and thereafter to but excluding the Ramp-Up Completion Date or (iii) 2.15% on the Ramp-Up Completion Date and thereafter.

The "Weighted Average Spread" means, as of any date or Measurement Date, the sum (rounded up to the next 0.001%) of (a) a number obtained, as of any date or Measurement Date, by (i) summing the products obtained by multiplying (x) the stated spread above LIBOR at which interest accrues on each Collateral Debt Security that is a Floating Rate Security (other than a Defaulted Security, a Written Down Security, a Deferred Interest PIK Security or an Interest Only Security) as of such date by (y) the principal balance of such Collateral Debt Security as of such date, and (ii) dividing such sum by the aggregate principal balance of all Collateral Debt Securities that are Floating Rate Securities (excluding all Defaulted Securities, Written Down Securities and Deferred Interest PIK Securities) plus (b) the number obtained by (i) summing the products obtained by multiplying (x) the notional interest rate above LIBOR on each Qualifying Interest Only Security that is a Floating Rate Security (excluding Defaulted Securities, Written Down Securities and Deferred Interest PIK Securities) (computed relative to the principal amount that is the basis for the computation of interest payable on such Qualifying Interest Only Security) as of such date by (y) the principal amount that is the basis for the computation of interest payable on each such Qualifying Interest Only Security and (ii) dividing such sum by the aggregate principal balance of all Collateral Debt Securities that are Floating Rate Securities (excluding all Defaulted Securities, Written Down Securities and Deferred Interest PIK Securities) plus (c) if such sum of the numbers obtained pursuant to clauses (a) and (b) is less than (i) 2.10% as of the Closing Date and thereafter to but excluding the Ramp-Up Test Date, (ii) 2.12% from the Ramp-Up Test Date and thereafter to but excluding the Ramp-Up Completion Date or (iii) 2.15% on the Ramp-Up Completion Date and thereafter, the Fixed Rate Excess, if any, as of such Measurement Date. For purposes of this definition, (1) a PIK Security shall be deemed to be a Deferred Interest PIK Security so long as any interest thereon has been deferred and capitalized for at least one payment date (until payment of interest on such PIK Security has resumed and all capitalized and deferred interest has been paid in accordance with the terms of the Underlying Instruments) and (2) no contingent payment of interest will be included in such calculation.

The "Fixed Rate Excess" as of any Measurement Date will equal a fraction (expressed as a percentage) the numerator of which is equal to the product of (a) the greater of zero and the excess, if any, of the Weighted Average Coupon for such Measurement Date over (i) for the period from and including the Closing Date to but excluding the Ramp-Up Test Date, 5.90%, (ii) thereafter to but excluding the Ramp-Up Completion Date, 5.95% and (iii) thereafter, 6.00% and (b) the aggregate principal balance of all fixed rate securities (excluding Defaulted Securities, Written Down Securities and Deferred Interest PIK Securities) and the denominator of which is the aggregate principal balance of all Floating Rate Securities (excluding Defaulted Securities, Written Down Securities and Deferred Interest PIK Securities).

Weighted Average Life Test. The "Weighted Average Life Test" will be satisfied as of any Measurement Date during any period set forth below if the Weighted Average Life of all Collateral

Debt Securities as of such Measurement Date is less than or equal to the number of years set forth in the table below:

<u>As of any Determination Date occurring during the period below</u>	<u>Weighted Average Life (Years)</u>
On the Closing Date to and including the Distribution Date in September, 2004	6.5
Thereafter to and including the Distribution Date in March, 2005	6.25
Thereafter to and including the Distribution Date in September, 2005	6.0
Thereafter to and including the Distribution Date in March, 2006	5.5
Thereafter to and including the Distribution Date in September, 2006	5.0
Thereafter to and including the Distribution Date in March, 2007	4.5
Thereafter	4.0

On any Measurement Date with respect to any Collateral Debt Security, the "Weighted Average Life" is the number obtained by (i) summing the products obtained by multiplying (a) the Average Life at such time of each Collateral Debt Security by (b) the outstanding principal balance of such Collateral Debt Security and (ii) dividing such sum by the aggregate principal balance at such time of all Collateral Debt Securities. On any Measurement Date with respect to any Collateral Debt Security, the "Average Life" is the quotient obtained by dividing (i) the sum of the products of (a) the number of years (rounded to the nearest one tenth thereof) from such Measurement Date to the respective dates of each successive scheduled distribution of principal of such Collateral Debt Security and (b) the respective amounts of principal of such scheduled distributions by (ii) the sum of all successive scheduled distributions of principal on such Collateral Debt Security.

Standard & Poor's Minimum Recovery Rate Test The "Standard & Poor's Minimum Recovery Rate Test" will be satisfied on any Measurement Date, if the Standard & Poor's Weighted Recovery Rate is equal to or greater than (a) 26.5% with respect to the Class A-1 Notes, Class A-2A Notes, and Class A-2B Notes, (b) 33.0% with respect to the Class B Notes, (c) 45.0% with respect to the Class C Notes or (d) 51.0% with respect to the Preference Shares.

The "Standard & Poor's Weighted Average Recovery Rate" means, as of any Measurement Date, the number (expressed as a percentage) obtained by summing the products obtained by (a) multiplying the principal balance of each Collateral Debt Security by its Applicable Recovery Rate (determined for purposes of this definition pursuant to clause (b) of the definition of "Applicable Recovery Rate", (b) dividing such sum by the aggregate principal balance of all such Collateral Debt Securities, and (c) rounding up to the first decimal place. For purposes of determining the Standard & Poor's Weighted Average Recovery Rate, the principal balance of a Defaulted Security and a Deferred Interest PIK Security will be deemed to be equal to its outstanding principal balance.

Standard & Poor's CDO Monitor Test The "Standard & Poor's CDO Monitor Test" will be satisfied if after giving effect to the sale of a Collateral Debt Security or the purchase of a Collateral Debt Security (or both), as the case may be, the Loss Differential for any Class of Notes or the

Preference Shares of the Proposed Portfolio is positive or if the Loss Differential for any Class of Notes or the Preference Shares of the Proposed Portfolio is negative prior to giving effect to such sale or purchase, the extent of compliance is improved after giving effect to the sale or purchase of a Collateral Debt Security; *provided* that the Standard & Poor's CDO Monitor Test shall not apply to the sale of a Credit Risk Security.

The "Class A-1 Break-Even Loss Rate" means, at any time, the maximum percentage of defaults which the Current Portfolio or the Proposed Portfolio, as applicable, can sustain (as determined by the Standard & Poor's CDO Monitor), which after giving effect to Standard & Poor's assumptions on recoveries and timing and to the Priority of Payments will result in sufficient funds remaining for the payment of the Class A-1 Notes in full by their Stated Maturity and the timely payment of interest on the Class A-1 Notes, as determined by the Standard & Poor's CDO Monitor.

The "Class A-1 Loss Differential" means, at any time, the rate calculated by subtracting the Class A-1 Scenario Loss Rate at such time from the Class A-1 Break-Even Loss Rate at such time.

The "Class A-1 Scenario Loss Rate" means, at any time, an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with the Standard & Poor's Rating of the Class A-1 Notes on the Closing Date, determined by application of the Standard & Poor's CDO Monitor at such time.

The "Class A-2 Break-Even Loss Rate" means, at any time, the maximum percentage of defaults which the Current Portfolio or the Proposed Portfolio, as applicable, can sustain (as determined by the Standard & Poor's CDO Monitor), which after giving effect to Standard & Poor's assumptions on recoveries and timing and to the Priority of Payments will result in sufficient funds remaining for the payment of the Class A-2 Notes in full by their Stated Maturity and the timely payment of interest on the Class A-2 Notes, as determined by the Standard & Poor's CDO Monitor.

The "Class A-2 Loss Differential" means, at any time, the rate calculated by subtracting the Class A-2 Scenario Loss Rate at such time from the Class A-2 Break-Even Loss Rate at such time.

The "Class A-2 Scenario Loss Rate" means, at any time, an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with the Standard & Poor's Rating of the Class A-2 Notes on the Closing Date, determined by application of the Standard & Poor's CDO Monitor at such time.

The "Class B Break-Even Loss Rate" means, at any time, the maximum percentage of defaults which the Current Portfolio or the Proposed Portfolio, as applicable, can sustain (as determined by the Standard & Poor's CDO Monitor), which after giving effect to Standard & Poor's assumptions on recoveries and timing and to the Priority of Payments will result in sufficient funds remaining for the payment of the Class B Notes in full by their Stated Maturity and the timely payment of interest on the Class B Notes, as determined by the Standard & Poor's CDO Monitor.

The "Class B Loss Differential" means, at any time, the rate calculated by subtracting the Class B Scenario Loss Rate at such time from the Class B Break-Even Loss Rate at such time.

The "Class B Scenario Loss Rate" means, at any time, an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with the Standard & Poor's Rating of the Class B Notes on the Closing Date, determined by application of the Standard & Poor's CDO Monitor at such time.

The "Class C Break-Even Loss Rate" means, at any time, the maximum percentage of defaults which the Current Portfolio or the Proposed Portfolio, as applicable, can sustain (as determined by the Standard & Poor's CDO Monitor), which after giving effect to Standard & Poor's assumptions on recoveries and timing and to the Priority of Payments will result in sufficient funds remaining for the payment of the Class C Notes in full by their Stated Maturity and the ultimate payment of interest on the Class C Notes, as determined by the Standard & Poor's CDO Monitor.

The "Class C Loss Differential" means, at any time, the rate calculated by subtracting the Class C Scenario Loss Rate at such time from the Class C Break-Even Loss Rate at such time.

The "Class C Scenario Loss Rate" means, at any time, an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with the Standard & Poor's Rating of the Class C Notes on the Closing Date, determined by application of the Standard & Poor's CDO Monitor at such time.

The "Preference Share Break-Even Loss Rate" means, at any time, the maximum percentage of defaults which the Current Portfolio or the Proposed Portfolio, as applicable, can sustain (as determined by the Standard & Poor's CDO Monitor), which after giving effect to Standard & Poor's assumptions on recoveries and timing and to the Priority of Payments will result in sufficient funds remaining for the payment of the Preference Share Stated Balance and the Preference Share Stated Coupon as determined by the Standard & Poor's CDO Monitor.

The "Preference Share Loss Differential" means, at any time, the rate calculated by subtracting the Preference Share Scenario Loss Rate at such time from the Preference Share Break-Even Loss Rate at such time.

The "Preference Share Scenario Loss Rate" means, at any time, an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with the Standard & Poor's Rating of the Preference Shares on the Closing Date, determined by application of the Standard & Poor's CDO Monitor at such time.

The "Proposed Portfolio" means the portfolio (measured by principal balance) of (a) pledged Collateral Debt Securities, (b) Principal Proceeds or Uninvested Proceeds held as cash and (c) Eligible Investments purchased with Principal Proceeds or Uninvested Proceeds resulting from the sale, maturity or other disposition of Collateral Debt Security or a proposed acquisition of a Collateral Debt Security, as the case may be.

The "Current Portfolio" means the portfolio (measured by principal balance) of (a) pledged Collateral Debt Securities, (b) Principal Proceeds or Uninvested Proceeds held as cash and (c) Eligible Investments purchased with Principal Proceeds or Uninvested Proceeds existing immediately prior to the sale, maturity or other disposition of a Collateral Debt Security or immediately prior to the acquisition of a Collateral Debt Security, as the case may be.

The "Standard & Poor's CDO Monitor" is the dynamic, analytical computer model provided by Standard & Poor's to the Collateral Manager on or prior to the Closing Date for the purpose of estimating the default risk of Collateral Debt Securities.

The Standard & Poor's CDO Monitor calculates the cumulative default rate of a pool of Collateral Debt Securities consistent with a specified benchmark rating level based upon Standard & Poor's proprietary corporate debt default studies. In calculating each Scenario Loss Rate, the Standard & Poor's CDO Monitor considers each obligor's most senior unsecured debt rating, the

number of obligors in the portfolio, the obligor and industry concentration in the portfolio and the remaining weighted average maturity of the Collateral Debt Securities and calculates a cumulative default rate based on the statistical probability of distributions of defaults on the Collateral Debt Securities.

There can be no assurance that actual defaults of the Collateral Debt Securities or the timing of defaults will not exceed those assumed in the application of the Standard & Poor's CDO Monitor or that recovery rates with respect thereto will not differ from those assumed in the Standard & Poor's CDO Monitor Test. Standard & Poor's makes no representation that actual defaults will not exceed those determined by the Standard & Poor's CDO Monitor. Neither the Collateral Manager nor the Issuer makes any representation as to the expected rate of defaults of the Collateral Debt Securities or the timing of defaults or as to the expected recovery rate or the timing of recoveries.

Dispositions of Collateral Debt Securities

The Collateral Debt Securities may be retired prior to their respective final maturities due to, among other things, the existence and frequency of exercise of any optional or mandatory redemption features of such Collateral Debt Securities. In addition, pursuant to the Indenture and so long as no Event of Default has occurred and is continuing, the Collateral Manager may direct the Trustee to sell:

- (1) any Defaulted Security (excluding any Synthetic Security Counterparty Defaulted Obligation not identified in clause (b) of the definition thereof) at any time;
- (2) any Equity Security at any time;
- (3) any Credit Risk Security at any time, *provided* that during the Substitution Period, following the sale of a Credit Risk Security, the Collateral Manager may use its best efforts to purchase, no later than 30 Business Days after the sale of such Credit Risk Security, substitute Collateral Debt Securities with an aggregate principal balance no less than the Sale Proceeds from such sale in compliance with the Reinvestment Criteria (other than the requirement of subclause (28) thereof relating to the Standard & Poor's CDO Monitor Test); *provided, further*, that the Collateral Manager may choose not to purchase any Substitute Collateral Debt Securities with such Sale Proceeds and, if the Collateral Manager so chooses, such Sale Proceeds shall be applied as Principal Proceeds on the related Distribution Date;
- (4) any Credit Improved Security at any time, provided that during the Substitution Period, such Credit Improved Security may be sold only if, in the Collateral Manager's judgment (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), the resulting Sale Proceeds will be reinvested within 10 Business Days after the sale of such Credit Improved Security in one or more substitute Collateral Debt Securities having an aggregate principal balance at least equal to 100% of the principal balance of the Credit Improved Security in compliance with the Reinvestment Criteria, and after the Substitution Period, such Credit Improved Security may be sold only if the Collateral Manager certifies to the Trustee in writing that (i) the Collateral Manager has determined that such security constitutes a Credit Improved Security and (ii) on the date of such sale, in the Collateral Manager's judgment (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), the Sale Proceeds (net of any accrued interest included therein) from the sale of such Credit Improved Security will be equal to or greater than the principal balance of the Credit Improved Security being sold; provided, further, that

any determination of whether the extent of non-compliance with any of the Reinvestment Criteria may not be made worse by such reinvestment shall be made by comparing the Collateral Debt Securities held by the Issuer immediately prior to the sale of such Credit Improved Security to the Collateral Debt Securities held by the Issuer immediately after such reinvestment; and

- (5) any Collateral Debt Security that is not a Defaulted Security, Written Down Security, Credit Risk Security or Credit Improved Security, provided that no Event of Default has occurred and is continuing and the Sale Proceeds therefrom will be reinvested in substitute Collateral Debt Securities in compliance with the Reinvestment Criteria within 10 Business Days after the date of such sale, but only if: (A) the aggregate principal balance of all such Collateral Debt Securities sold pursuant to this clause (v) for (x) the period from and including the Closing Date to and including December 31, 2004 does not exceed 85% of the Discretionary Sale Percentage, (y) any calendar year thereafter ending on or prior to December 31, 2006 does not exceed the Discretionary Sale Percentage and (z) the period from and including January 1, 2007 to and including March 6, 2007 does not exceed 18% of the Discretionary Sale Percentage of the Net Outstanding Portfolio Collateral Balance as of the first day of such period; (B) no Rating Agency has withdrawn its rating (including any private or confidential rating), if any, of any Class of Notes or reduced any such rating below the rating in effect on the Closing Date by one or more rating subcategories (in the case of Notes other than the Class C Notes) or two or more rating subcategories (in the case of the Class C Notes); and (C) such sale occurs during the Substitution Period and the Collateral Manager determines, taking into account any factors it deems relevant, that such sales and any related purchases or substitutions will, in the Collateral Manager's judgment (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), benefit the Issuer in one or more of the following manners: an improvement in one or more of the Collateral Quality Tests or the Standard & Poor's CDO Monitor Test, an improvement in the credit quality of the portfolio, a narrowing of interest rate mismatches or any other improvement which, in the Collateral Manager's judgment (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), would result in a benefit to the Issuer (and, in each case, without adversely affecting one or more of the Collateral Quality Tests or the Standard & Poor's CDO Monitor Test); provided, further, that any determination of whether the extent of non-compliance with any of the Reinvestment Criteria may not be made worse by such reinvestment shall be made by comparing the Collateral Debt Securities held by the Issuer immediately prior to the sale of such Collateral Debt Security to the Collateral Debt Securities held by the Issuer immediately after such reinvestment.

"Credit Improved Security" means any Collateral Debt Security or any other security included in the Collateral (other than a Defaulted Security) that satisfies one of the following criteria:

- (1) so long as no rating of any Class of Notes has been reduced or withdrawn by Standard & Poor's or Moody's (and has not been reinstated), the Collateral Manager believes (based on its judgment exercised in accordance with the standard of care set forth in the Collateral Management Agreement) that such Collateral Debt Security has improved in credit quality; or

- (2) such Collateral Debt Security has been upgraded or put on a watch list for possible upgrade by one or more rating subcategories by Standard & Poor's or Moody's since it was

acquired by the Issuer and the Collateral Manager believes (based on its judgment exercised in accordance with the standard of care set forth in the Collateral Management Agreement) that such Collateral Debt Security has improved in credit quality since such date.

"Credit Risk Security" means any Collateral Debt Security or any other security included in the Collateral that satisfies one of the following criteria:

(1) so long as no rating of any Class of Notes has been reduced or withdrawn by Standard & Poor's or Moody's (and has not been reinstated), the Collateral Manager believes (based on its judgment exercised in accordance with the standard of care set forth in the Collateral Management Agreement) that such Collateral Debt Security has a significant risk of declining in credit quality and, with lapse of time, becoming a Defaulted Security or Written Down Security; or

(2) if at the time of such proposed sale, the rating of any Class of Notes has been reduced or withdrawn by Standard & Poor's or Moody's (and has not been reinstated), such Collateral Debt Security has been downgraded or put on a watch list for possible downgrade by any Rating Agency by one or more rating subcategories since it was acquired by the Issuer and the Collateral Manager believes (based on its judgment exercised in accordance with the standard of care set forth in the Collateral Management Agreement) that such Collateral Debt Security has a significant risk of declining in credit quality and, with lapse of time, becoming a Defaulted Security or Written Down Security.

"Defaulted Security" means any Collateral Debt Security:

(1) as to which the issuer thereof has defaulted in the payment of principal or interest without regard to any applicable grace period or waiver; *provided* that a Collateral Debt Security will not be classified as a "Defaulted Security" under this paragraph if (i) the Collateral Manager certifies to the Trustee that, in its judgment (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), such payment default is not due to credit-related or fraud-related causes and such default does not continue for more than five Business Days (or, if earlier, until the next succeeding Determination Date) or (ii) such payment default has been cured by the payment of all amounts that were originally scheduled to have been paid;

(2) that ranks *pari passu* with or subordinate to any other material indebtedness for borrowed money owing by the issuer of such security (for purposes hereof, "Other Indebtedness") if such issuer had defaulted in the payment (beyond any applicable notice or grace period, which grace period should not exceed five days) of principal or interest with respect to such Other Indebtedness, unless, in the case of a default or event of default consisting of a failure of the obligor on such security to make required interest payments, such Other Indebtedness has resumed current payments of interest (including all accrued interest) in cash (whether or not any waiver or restructuring has been effected); *provided* that a Collateral Debt Security will not be classified as a Defaulted Security under this paragraph if (i) the Collateral Manager, in its judgment, determines that such Collateral Debt Security should not be so classified and gives notice of such determination to the Trustee and the Rating Agencies and (ii) such determination satisfies the Rating Condition;

(3) as to which any bankruptcy, insolvency or receivership proceeding has been initiated in connection with the issuer thereof, or there has been proposed or effected any distressed exchange or other debt restructuring pursuant to which the issuer thereof has offered the holders thereof a new security or package of securities that the Collateral Manager determines either

(i) amounts to a diminished financial obligation of the relevant obligor or (ii) is intended solely to enable the relevant obligor to avoid defaulting in the performance of its obligations under such Collateral Debt Security; *provided* that a Collateral Debt Security shall not constitute a "Defaulted Security" under this clause (3) if such Collateral Debt Security was acquired in a distressed exchange or other debt restructuring and complies with the requirements of the definition of "Collateral Debt Security";

(4) that is rated "Ca" or "C" by Moody's or as to which the rating thereof by such Rating Agency has been withdrawn;

(5) that is rated "CC", "D" or "SD" by Standard & Poor's or as to which the rating thereof by such Rating Agency has been withdrawn;

(6) that is rated "CC" or lower by Fitch or as to which the rating thereof by such Rating Agency has been withdrawn ;

(7) that is a Defaulted Synthetic Security;

(8) that is a Synthetic Security (other than a Defaulted Synthetic Security) with respect to which there is a Synthetic Security Counterparty Defaulted Obligation;

(9) that is a Non-Performing NIM Security; or

(10) that is a Deliverable Obligation that would not satisfy paragraphs (1) through (27) of the Reinvestment Criteria at the time such Deliverable Obligation is delivered to the Issuer.

"Discretionary Sale Percentage" means (i) if the Net Outstanding Portfolio Collateral Balance minus the aggregate outstanding amount of all Class A-1 Notes is less than U.S.\$181,500,000, 0%, (ii) if the Net Outstanding Portfolio Collateral Balance minus the aggregate outstanding amount of all Class A-1 Notes is less than U.S.\$192,000,000 but equals or exceeds U.S.\$181,500,000, 7% and (iii) otherwise, 15%.

"Non-Performing NIM Security" means any NIM Security which has not received, during the immediately preceding six-month period, principal amortization in an amount equal to at least 150% of the minimum amount of interest required to be paid during such six-month period; *provided* that any NIM Security that becomes a Non-Performing NIM Security shall be treated as a Non-Performing NIM Security regardless of subsequent performance.

"Sale Proceeds" means all proceeds received as a result of (1) the sale of Collateral Debt Securities, Equity Securities, U.S. Agency Securities and Eligible Investments pursuant to the Indenture; (2) an Auction Call Redemption net of reasonable out-of-pocket expenses of the Collateral Manager or the Trustee in connection with any such sale; or (3) sales of U.S. Agency Securities.

"Synthetic Security Counterparty Defaulted Obligation" means a Synthetic Security (other than a Defaulted Synthetic Security) with respect to which:

(a) (i) the long-term debt obligations of the relevant Synthetic Security Counterparty are rated (A) less than "Baa3" by Moody's, (B) "D" or "SD" by Standard & Poor's or (C) less than "BBB-" by Fitch, or (ii) the rating of the relevant Synthetic Security Counterparty by Standard & Poor's is withdrawn for reasons relating to the credit quality of such Synthetic Security Counterparty; or

(b) the Synthetic Security Counterparty has defaulted in the performance of any of its payment or delivery obligations under the Synthetic Security.

"Defaulted Synthetic Security" a Synthetic Security referencing a Reference Obligation that would, if such Reference Obligation were a Collateral Debt Security, constitute a "Defaulted Security" under the definition thereof (other than paragraphs (7), (8) and (10) thereof); provided that, if a Synthetic Security references more than one Reference Obligation, such Synthetic Security will be a Defaulted Synthetic Security only if a specified aggregate notional amount of such specified Reference Obligations constitute "Defaulted Securities" under the definition thereof (other than paragraphs (7), (8) and (10) thereof).

"Specified Principal Proceeds" means, with respect to any Due Period, (i) all payments of principal of any Collateral Debt Security (excluding any amount representing the accreted portion of a discount from the face amount of a Collateral Debt Security and excluding any amount referred to in subclause (ii) below) received in cash by the Issuer during such Due Period, including prepayments, mandatory redemption payments or mandatory sinking fund payments, payments in respect of optional redemptions, exchange offers or tender offers and (ii) all Sale Proceeds from, and all payments received in respect of, any Defaulted Security, Written Down Security or Deferred Interest PIK Security made since such security became a Defaulted Security, Written Down Security or Deferred Interest PIK Security, up to an amount equal to the par amount at the time of determination (*provided* that, for the purposes of this subclause (ii), the par amount with respect to a Written-Down Security shall be deemed to be the original par amount thereof, and not the written-down amount thereof).

"Written Down Security" means any Collateral Debt Security as to which the aggregate par amount of such Collateral Debt Security and all other securities secured by the same pool of collateral that rank *pari passu* with or senior in priority of payment to such Collateral Debt Security exceeds the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such securities (excluding defaulted collateral).

Any Defaulted Security must be sold within one year after the related Collateral Debt Security became a Defaulted Security (or within one year of such later date as such security may first be sold in accordance with its terms), except that, subject to the satisfaction of the Rating Condition, such Defaulted Security may be sold within two years after the related Collateral Debt Security became a Defaulted Security (or within two years of such later date as such security may first be sold in accordance with its terms).

Any Equity Security received in exchange for a Defaulted Security must be sold within one year after the related Collateral Debt Security became a Defaulted Security (or within one year of such later date as such security may first be sold in accordance with its terms). Any other Equity Security must be sold within five Business Days after the Issuer's receipt thereof (or within five Business Days of such later date as such security may first be sold in accordance with its terms).

In the event of an Auction Call Redemption, Optional Redemption or a Tax Redemption of the Notes, the Collateral Manager may direct the Trustee to sell Collateral Debt Securities without regard to the foregoing limitations; *provided* that (i) the proceeds therefrom will be at least sufficient to pay certain expenses and other amounts and redeem in whole but not in part all Notes to be redeemed simultaneously; and (ii) such proceeds are used to make such a redemption. See "Description of the Notes—Auction Call Redemption" and "Optional Redemption and Tax Redemption".

Any purchase or disposition of a Collateral Debt Security will be conducted on an "arm's-length basis" for fair market value and in accordance with the requirements of the Collateral Management Agreement, and, if effected with the Collateral Manager, the Issuer, the Trustee or any affiliate of any of the foregoing, will be effected in a secondary market transaction on terms as favorable to the Noteholders as would be the case if such person were not so affiliated; *provided* that (1) after the Closing Date, the Collateral Manager will not direct the Trustee to acquire a Collateral Debt Security for inclusion in the Collateral from the Collateral Manager or any of its respective Affiliates as principal or to sell an obligation included in the Collateral to the Collateral Manager or any of its respective Affiliates as principal; and (2) after the Closing Date, the Collateral Manager shall not direct the Trustee to acquire any Collateral Debt Security for inclusion in the Collateral from any account or portfolio for which the Collateral Manager serves as investment adviser or direct the Trustee to sell any Collateral Debt Security from the Collateral to any account or portfolio for which the Collateral Manager serves as investment adviser unless such transactions comply with all requirements of any applicable laws. The Trustee shall have no responsibility to oversee compliance with the above conditions by the other parties.

Principal Proceeds (other than Principal Proceeds constituting Specified Principal Proceeds received on or prior to the last day of the Substitution Period) will be applied to repayment of principal of the Notes in accordance with the Priority of Payments. See "Description of the Notes? Priority of Payments".

In the event that the any of the Collateral Quality Tests, Coverage Tests or the Weighted Average Price Test shall fail to be satisfied on the Ramp-Up Test Date, each subsequent purchase of any Collateral Debt Security occurring on or prior to the Ramp-Up Completion Date shall be subject to the satisfaction of the Rating Condition.

Reinvestment Criteria

No investment will be made in Collateral Debt Securities after the last day of the Substitution Period. The Issuer will not acquire any Collateral Debt Security during the Substitution Period unless the following criteria (the "Reinvestment Criteria") are satisfied with respect to such security on the date of such Grant and after giving effect thereto:

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| Collateral Debt Security | (1) such security is a Collateral Debt Security; |
| Moody's Rating | (2) such security must have a Moody's Rating of at least "Baa3"; |
| No Defaulted Securities, Written Down Securities or Credit Risk Securities | (3) such security is not a Defaulted Security, Written Down Security or Credit Risk Security; |
| Limitation on Stated Final Maturity | (4) unless such security is an Interest Only Security, if the Stated Maturity of such security occurs later than the Stated Maturity of the Notes, the aggregate principal balance of all such securities does not exceed 4% of the Net Outstanding Portfolio Collateral Balance; <i>provided</i> that no such security shall have a Stated Maturity occurring more than five years after the Stated Maturity of the Notes; |

Miscellaneous Limitations	(5) such security is not (and, with respect to subclause (B) below, any Equity Security acquired in connection with such security is not) (A) a security issued by an issuer incorporated or organized under the laws of a country that imposes foreign exchange controls that effectively limit the availability or use of Dollars to make when due the scheduled payments of principal of and interest on such security; (B) Margin Stock; (C) a financing by a debtor-in-possession in any insolvency proceeding; (D) a security that by the terms of its Underlying Instruments provides for mandatory conversion or exchange into equity capital, or conversion into any other security or obligation at the option of the issuer thereof, at any time prior to its maturity; (E) the subject of an Offer (nor has it been called for redemption) or (F) a lease;
No Future Advances	(6) after the acquisition of such security, the Issuer is not required by the Underlying Instruments related thereto to make any payment or advance to the issuer thereof or to the related Synthetic Security Counterparty under the related Underlying Instruments;
Unregistered Securities	(7) if such security (i) was not issued pursuant to an effective registration statement under the Securities Act or (ii) is not eligible for resale under Rule 144A or Regulation S under the Securities Act, (A) the aggregate principal balance of all such securities does not exceed 10% of the Net Outstanding Portfolio Collateral Balance and (B) unless such security is a Synthetic Security, the Collateral Manager certifies that bona fide bids for the purchase of such Collateral Debt Security are available from at least three nationally recognized dealers in Asset-Backed Securities;
Corporate Guarantees	(8) if such security (including any Synthetic Security as to which the related Reference Obligation) is guaranteed as to ultimate or timely payment of principal or interest, (A) the aggregate principal balance of all such securities does not exceed 10% of the Net Outstanding Portfolio Collateral Balance and (B) the aggregate principal balance of all such securities guaranteed by any single guarantor and its Affiliates is not greater than 3% of the Net Outstanding Portfolio Collateral Balance;
Interest Paid Less Frequently than Quarterly	(9) if such security (including any Synthetic Security as to which any related Reference Obligation) provides for periodic payments of interest in Cash less frequently than quarterly, the aggregate principal balance of all such securities does not exceed 7.5% of the Net Outstanding Portfolio Collateral Balance;
Floating Rate Security	(10) if such security (including any Synthetic Security as to which any related Reference Obligation) is (x) expressly stated to bear interest based upon a floating rate index (a "Floating Rate Security"), the aggregate principal balance of all such securities does, absent satisfaction of the Rating Condition, not exceed 85% of the Net Outstanding Portfolio Collateral Balance or (y) not a Floating Rate Security, the aggregate principal balance of all such securities does not exceed 25% of the Net Outstanding Portfolio Collateral Balance;

Moody's
Rating Below
"A3"

(11) if such security (including any Synthetic Security as to which any related Reference Obligation) has a Moody's Rating below "A3", the aggregate principal balance of all such securities does not exceed 95% of the Net Outstanding Portfolio Collateral Balance;

Weighted
Average Life

(12) if such security (including any Synthetic Security as to which any related Reference Obligation) has (A) a Weighted Average Life of at least 10 years but less than 12 years, the aggregate principal balance of all such securities does not exceed 6% of the Net Outstanding Portfolio Collateral Balance, (B) a Weighted Average Life of at least 12 years and not more than 20 years, the aggregate principal balance of all such securities does not exceed 4% of the Net Outstanding Portfolio Collateral Balance or (C) a Moody's Rating of less than "Baa3", the Weighted Average Life of such security does not exceed 10 years, and the Weighted Average Life of all Collateral Debt Securities does not exceed 6.5 years;

Single Issuer

(13) (A) the aggregate principal balance of all securities that are (including Synthetic Securities as to which their Reference Obligations are) issued by the same issuer do not exceed 1.5% of the Net Outstanding Portfolio Collateral Balance; (B) the aggregate principal balance of all securities that are (including Synthetic Securities as to which their Reference Obligations are) issued by any issuer and that (as to any single issuer) exceed 1.25% of the Net Outstanding Portfolio Collateral Balance do not in the aggregate exceed 30% of the Net Outstanding Portfolio Collateral Balance; (C) the aggregate principal balance of all securities that are (including Synthetic Securities as to which their Reference Obligations are) issued by any issuer and that (as to any single issuer) exceed 1.00% of the Net Outstanding Portfolio Collateral Balance do not in the aggregate exceed 55% of the Net Outstanding Portfolio Collateral Balance; (D) the aggregate principal balance of all securities that are (including Synthetic Securities as to which their Reference Obligations are) issued by any issuer and that (as to any single issuer) exceed 0.75% of the Net Outstanding Portfolio Collateral Balance do not in the aggregate exceed 67% of the Net Outstanding Portfolio Collateral Balance; and (E) the aggregate principal balance of all securities that are (including Synthetic Securities as to which their Reference Obligations are) issued by any issuer and that (as to any single issuer) exceed 0.50% of the Net Outstanding Portfolio Collateral Balance do not in the aggregate exceed 94% of the Net Outstanding Portfolio Collateral Balance;

Single Servicer

(14) with respect to the Servicer in relation to such Collateral Debt Security, the aggregate principal balance of all Collateral Debt Securities serviced by such Servicer (together with the aggregate principal balance of any Synthetic Securities related thereto) does not exceed 7.5% of the Net Outstanding Portfolio Collateral Balance, except that:

(A) the aggregate principal balance of all Collateral Debt Securities serviced by any Servicer may aggregate to up to 10% of the Net Outstanding Portfolio Collateral Balance so long as such Servicer is rated at least "A3" by Moody's, at least "A-" or "Above Average" by Standard & Poor's and at least "A-" or "S2" by Fitch; and

(B) the aggregate principal balance of all collateral Debt Securities serviced by any Servicer may aggregate to up to 15% of the Net Outstanding Portfolio Collateral Balance so long as such Servicer is rated at least "Aa3" by Moody's, ranked at least "Strong" by Standard & Poor's and rated at least "AA-" or "S1" by Fitch;

Synthetic Securities

(15) if such security is a Synthetic Security, then (A) such Synthetic Security is acquired from a Synthetic Security Counterparty rated, on the date of such Grant, at least "Aa2" by Moody's and "AA" by Standard & Poor's and "AA" by Fitch, (B) the aggregate principal balance of all securities constituting Synthetic Securities acquired from any single Synthetic Security Counterparty and its Affiliates is not greater than 5% of the Net Outstanding Portfolio Collateral Balance, (C) the Rating Condition (for the purposes of this subclause (15) only, the Rating Condition only applies with regard to Moody's and Standard & Poor's) has been satisfied with respect to the acquisition of such Synthetic Security, each of Moody's and Standard & Poor's has assigned a rating and an Applicable Recovery Rate to such Synthetic Security, and Fitch has been notified of the acquisition of such Synthetic Security and (D) the aggregate principal balance of all Synthetic Securities does not exceed 10% of the Net Outstanding Portfolio Collateral Balance;

PIK Securities

(16) if such security (including any Synthetic Security as to which any related Reference Obligation) is a PIK Security, the aggregate principal balance of all such securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;

Backed by Obligations of Non-U.S. Obligors

(17) the Aggregate Attributable Amount of all securities (including all Synthetic Securities as to which their respective Reference Obligations are) related to (A) obligors not organized or incorporated under the law of the United States of America or any State thereof does not exceed 20% of the Net Outstanding Portfolio Collateral Balance, (B) obligors organized or incorporated under the law of the United Kingdom does not exceed 12.5% of the Net Outstanding Portfolio Collateral Balance, (C) obligors organized or incorporated under the law of Canada does not exceed 12.5% of the Net Outstanding Portfolio Collateral Balance, (D) Qualifying Foreign Obligors organized or incorporated under the law of any other jurisdiction does not exceed 3% of the Net Outstanding Portfolio Collateral Balance, and (E) obligors, excluding Qualifying Foreign Obligors and obligors not organized or incorporated under the law of the United States of America or any State thereof does not exceed 3% of the Net Outstanding Portfolio Collateral Balance;

Interest Only Securities, Zero Coupon Bonds and NIM Securities

(18) (i) if such security (including any Synthetic Security as to which any related Reference Obligation) is an Interest Only Security, (A) the Aggregate Amortized Cost of all such securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance and (B) if such Interest Only Security is being acquired after the Closing Date, the Rating Condition is satisfied with respect to such acquisition, (ii) if such security (including any Synthetic Security as to which any related Reference Obligation) is a Zero

Coupon Bond, (A) the Aggregate Amortized Cost of all such securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance and (B) if such Zero Coupon Bond is being acquired after the Closing Date, the Rating Condition shall be satisfied with respect to such acquisition and (iii) if such security (including any Synthetic Security as to which any related Reference Obligation) is a NIM Security, (A) the aggregate principal balance of all such securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance and (B) if such NIM Security is being acquired after the Closing Date, the Rating Condition shall be satisfied with respect to such acquisition;

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| Step-Up Bonds | (19) if such security (including any Synthetic Security as to which any related Reference Obligation) is a Step-Up Bond, the aggregate principal balance of all such securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance; |
| Step-Down Bonds | (20) if such security (including any Synthetic Security as to which any related Reference Obligation) is a Step-Down Bond, the aggregate principal balance of all such securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance; |
| ABS Franchise Securities | (21) such security (including any Synthetic Security as to which any related Reference Obligation) is not an ABS Franchise Security; |
| Manufactured Housing Securities | (22) such security (including any Synthetic Security as to which any related Reference Obligation) is not a Manufactured Housing Security; |
| Tobacco Settlement Securities | (23) such security (including any Synthetic Security as to which any related Reference Obligation) is not a Tobacco Settlement Security; |
| Mutual Fund Fee Securities | (24) such security (including any Synthetic Security as to which any related Reference Obligation) is not a Mutual Fund Fee Security; |
| Aerospace and Defense Securities | (25) such security (including any Synthetic Security as to which any related Reference Obligation) is not an Aerospace and Defense Security; |
| Non-U.S. Obligors and Synthetic Securities | (26) if such security is a Synthetic Security or an obligation of an obligor incorporated or organized under the laws of a country whose unguaranteed, unsecured and otherwise unsupported foreign currency issuer credit rating is below "AA" by Standard & Poor's, the aggregate principal balance of all such securities does not exceed 20% of the Net Outstanding Portfolio Collateral Balance; |
| CDO Obligations and Prohibited CDO Securities | (27) if such security is a CDO Obligation (including CDO Obligations backed predominantly by credit linked securities), (i) such security is not a Prohibited CDO Security and (ii) the aggregate principal balance of all securities that are CDO Obligations does not exceed 5% of the Net Outstanding Portfolio Collateral Balance; |
| Collateral Quality Tests | (28) each of the Collateral Quality Tests and the Standard & Poor's CDO Monitor Test is satisfied on such date or, if immediately prior to such |

acquisition one or more of the Collateral Quality Tests or the Standard & Poor's CDO Monitor Test was not satisfied, the extent of non-compliance with such Collateral Quality Test(s) or the Standard & Poor's CDO Monitor Test may not be made worse (except to the extent that a reduction in the extent of compliance does not result in non-compliance); and

Coverage Tests

(29) each Coverage Test was satisfied on the preceding Determination Date (after giving effect to all distributions made or to be made on the related Distribution Date) and each of the Coverage Tests is satisfied on such date or, if immediately prior to such acquisition one or more of such other Coverage Tests was not satisfied, the extent of non-compliance with such Coverage Test(s) may not be made worse (except to the extent that a reduction in the extent of compliance does not result in non-compliance).

"Aggregate Amortized Cost" means, with respect to any Interest Only Security, Step-Up Bond or Zero Coupon Bond as of any date of determination, (a) on the date of acquisition thereof by the Issuer, the cost of purchase thereof and (b) on any date thereafter, the present value of all remaining payments on such Interest Only Security, Step-Up Bond or Zero Coupon Bond discounted to such date of determination as of each subsequent Distribution Date at a discount rate per annum equal to the internal rate of return on such Interest Only Security, Step-Up Bond or Zero Coupon Bond as calculated at the time of purchase thereof by the Collateral Manager (in its judgment exercised in accordance with the standard of care set forth in the Collateral Management Agreement) on behalf of the Issuer.

"Aggregate Attributable Amount" means, with respect to any specified Collateral Debt Security and issuers incorporated or organized under the laws of any specified jurisdiction or jurisdictions, (a) the aggregate principal balance of such Collateral Debt Security multiplied by (b) the aggregate par amount of collateral securing such Collateral Debt Security issued by issuers so incorporated or organized divided by (c) the aggregate par amount of all collateral securing such Collateral Debt Security. The Collateral Manager shall determine the Aggregate Attributable Amount with respect to any specified Collateral Debt Security and issuer or issuers based upon information in the most recent servicing, trustee or other similar report delivered in accordance with the related Underlying Instruments and, if no such information is available after inquiry of the relevant issuer, Servicer, collateral manager or any other Person serving in a similar capacity, by estimating such Aggregate Attributable Amount using its judgment (exercised in accordance with the standard of care set forth in the Collateral Management Agreement) based upon all relevant information otherwise available to the Collateral Manager..

"Interest Only Security" means any Asset-Backed Security that does not provide for the repayment of a stated principal amount in one or more installments.

"Issue" of Collateral Debt Securities means Collateral Debt Securities issued by the same issuer, having the same terms and conditions (as to, among other things, coupon, maturity, security and subordination) and otherwise being fungible with one another.

"NIM Security" means a net interest margin security that is rated by Moody's and Standard & Poor's.

"Offer" means, with respect to any security, (i) any offer by the issuer of such security or by any other person made to all of the holders of such security to purchase or otherwise acquire such security (other than pursuant to any redemption in accordance with the terms of its Underlying

Instruments) or to convert or exchange such security into or for cash, securities or any other type of consideration or (ii) any solicitation by the issuer of such security or any other person to amend, modify or waive any provision of such security or any of its Underlying Instruments.

"Rating Condition" means, with respect to any action taken or to be taken under the Indenture, a condition that is satisfied when each Rating Agency has confirmed in writing to the Issuer, the Trustee and the Collateral Manager that such action will not result in the withdrawal, reduction or other adverse action with respect to any then-current rating (including any shadow, private or confidential rating) of any Class of Notes.

"Registered" means a debt obligation (a) issued after July 18, 1984 and (b) in registered form for U.S. Federal income tax purposes; *provided*, that a certificate of interest in a trust that is treated as a grantor trust for U.S. Federal income tax purposes shall not be treated as Registered unless each of the obligations or securities held by the trust was issued after that date.

"Servicer" means, with respect to any Issue of any Collateral Debt Security, the person that, absent any default, event of default or similar condition (however described), is primarily responsible for monitoring and otherwise administering the cash flows from which payments to investors in such Collateral Debt Securities are made; it being understood that a person that is a portfolio or investment manager for a CBO Security is not considered a Servicer for purposes of the Reinvestment Criteria.

"Step-Down Bond" means a security that by the terms of the related Underlying Instrument provides for a decrease, in the case of a fixed rate security, in the per annum interest rate on such security or, in the case of a Floating Rate Security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step-Down Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer. In calculating any Collateral Quality Test defined herein by reference to the spread (in the case of a floating rate Step-Down Bond) or coupon (in the case of a fixed rate Step-Down Bond) of a Step-Down Bond, the spread or coupon on any date shall be deemed to be the lowest spread or coupon, respectively, scheduled to apply to such Step-Down Bond on or after such date.

"Step-Up Bond" means a security that by the terms of the related Underlying Instrument provides for an increase, in the case of a fixed rate security, in the per annum interest rate on such security or, in the case of a Floating Rate Security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step-Up Bond will not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer. In calculating any Collateral Quality Test by reference to the spread (in the case of a floating rate Step-Up Bond) or coupon (in the case of a fixed rate Step-Up Bond) of a Step-Up Bond, the spread or coupon on any date will be deemed to be the spread or coupon stated to be payable in cash and in effect on such date.

"Zero Coupon Bond" means a Collateral Debt Security that, pursuant to the terms of its Underlying Instruments, on the date on which it is purchased by the Issuer does not provide for the payment of interest, or provides that all payments of interest will be deferred until the final maturity thereof.

If the Issuer has previously entered into a commitment to acquire an obligation or security for inclusion in the Collateral, then the Issuer need not comply with any of the Reinvestment Criteria on the date of such acquisition if the Issuer was in compliance with each of the Reinvestment Criteria on the date on which the Issuer entered into such commitment. However, the Issuer may only enter into

commitments to acquire securities for inclusion in the Collateral if such commitments to acquire securities do not extend beyond a 30-day period.

Notwithstanding the foregoing provisions, if an Event of Default shall have occurred and be continuing, no Collateral Debt Security may be acquired unless it was the subject of a commitment entered into by the Issuer prior to the occurrence of such Event of Default.

The Issuer may not acquire any Collateral Debt Security unless such acquisition is made on an "arm's-length basis" for fair market value.

The Collateral Management Agreement will provide that when purchasing, entering into, managing, selling or terminating CDO Obligations, Other ABS or Corporate Debt Securities on behalf of the Issuer, the Collateral Manager shall be deemed to have satisfied the requirements in clause (ix) of the definition of Collateral Debt Security as to manner of acquisition if it (and, if it is a certificate of beneficial interest in a trust that is treated as a grantor trust and not as a REMIC or FASIT for U.S. Federal income tax purposes, each of the debt instruments or securities held by such trust) is described in one of the following four clauses:

- (1) the obligation or security was issued pursuant to an effective registration statement under the Securities Act in a firm commitment underwriting for which neither the Collateral Manager nor an Affiliate thereof served as underwriter;
- (2) the obligation or security was not purchased by the Issuer (A) directly or indirectly from its issuer or from the Collateral Manager, (B) from any person pursuant to a legally binding commitment made before the issuance of the obligation or security or (C) from any Affiliate of the Collateral Manager or any account or fund managed or controlled by the Collateral Manager or any of its Affiliates unless such Affiliate, account or fund (1) regularly acquires securities of the same type for its own account, (2) could have held the obligation or security for its own account consistent with its investment policies, (3) did not identify the obligation or security as intended for sale to the Issuer within 90 days of its issuance and (4) held the obligation or security for at least 90 days;
- (3) the obligation or security is a privately placed obligation or security eligible for resale under Rule 144A or Regulation S under the Securities Act and
 - (A) the obligation or security was originally issued pursuant to an offering memorandum, private placement memorandum or similar offering document;
 - (B) the Issuer, the Collateral Manager and the Affiliates of the Collateral Manager and accounts and funds managed or controlled by the Collateral Manager or any of its Affiliates either (i) did not at original issuance acquire 50% or more of the aggregate principal amount of such securities or 50% or more of the aggregate principal amount of any other class of securities offered by the issuer of the obligation or security in the offering and any related offering or (ii) did not at original issuance acquire 5% or more of the aggregate principal amount of all classes of securities offered by the issuer of the obligation or security in the offering and any related offering, *provided* in each case that any acquisition by an Affiliate of the Collateral Manager that is not a member of the Collateral Manager Group or any account or fund managed by such an Affiliate of the Collateral Manager shall be included only if the Collateral Manager or any of its employees or agents knew or had reason to know of such acquisition; and

- (C) the Issuer, the Collateral Manager and any Affiliate of the Collateral Manager did not participate in negotiating or structuring the terms of the obligation or security, except for the purposes of (i) commenting on offering documents to an unrelated underwriter or placement agent where the ability to comment on such documents was generally available to investors or (ii) due diligence of the kind customarily performed by investors in securities, *provided* that any participation in negotiating or structuring by any Affiliate of the Collateral Manager that is not a member of the Collateral Manager Group shall be included only if the Collateral Manager or any of its employees or agents knew or had reason to know of such participation; or
- (4) it is the sole material obligation of a repackaging vehicle formed and operated exclusively to hold (A) a single Asset-Backed Security or Corporate Debt Security that the Issuer could have acquired directly but for one or more terms (which may include rating) of the Asset-Backed Security or Corporate Debt Security, (B) a derivative financial instrument or guarantee designed solely to offset fully the terms of the Asset-Backed Security or Corporate Debt Security that prevented the Issuer from acquiring it directly and (C) net cash proceeds of (A) and (B) held pending distribution.

Furthermore, the Collateral Manager agrees to acquire an obligation or security for inclusion as a Collateral Debt Security only if such security, for U.S. Federal income tax purposes, is (A) debt, (B) issued only by one or more corporations, (C) issued only by persons not engaged in a trade or business within the United States or (D) issued only by a grantor trust all the assets of which satisfy this paragraph.

The Hedge Agreement

The Issuer will on the Closing Date enter into an interest rate protection agreement (such agreement, and any replacement therefor entered into in accordance with the Indenture, the "Hedge Agreement") consisting of an interest rate swap and an interest rate cap with a counterparty with respect to which the Rating Condition has been satisfied (the "Hedge Counterparty"). In addition, on the Closing Date, the Issuer will enter into a basis swap (together with any replacement therefor, the "Basis Swap" with a counterparty with the Hedge Counterparty (together with any permitted assignee or successor, the "Basis Swap Counterparty"). The Initial Hedge Counterparty shall be AIG Financial Products Corp. (the "Initial Hedge Counterparty"), located at 50 Danbury Road, Wilton, CT 06897-4444 and the Initial Basis Swap Counterparty (the "Initial Basis Swap Counterparty") shall be AIG Financial Products Corp., located at 50 Danbury Road, Wilton, CT 06897-4444. The Issuer will not, however, enter into any hedge agreement, the payments from which are subject to withholding tax or the acquisition, ownership, enforcement or disposition of which would subject the Issuer to tax on a net income basis in any jurisdiction outside the Issuer's jurisdiction of incorporation. Pursuant to the Priority of Payments, scheduled payments required to be made by the Issuer under the Hedge Agreement, together with any termination payments payable by the Issuer other than any Subordinate Hedge Termination Payment, will be payable pursuant to clause (5) under "Priority of Payments—Interest Proceeds". The Hedge Agreement will be governed by New York law.

In respect of any Hedge Counterparty (other than the Initial Hedge Counterparty), if: (x)(i) the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of the relevant Hedge Rating Determining Party (or any affiliate of the Hedge Counterparty that unconditionally and absolutely guarantees the obligations of the Hedge Counterparty) are rated below "A1" by Moody's or rated "A-1" by Moody's and (ii) the unsecured, unguaranteed and otherwise unsupported short-term debt obligations of the relevant Hedge Rating Determining Party are rated "P-1" by Moody's or (y) if such Hedge Rating Determining Party does not have a short-term rating from Moody's, the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such

Hedge Rating Determining Party are rated below "Aa3" by Moody's or are rated "Aa3" by Moody's, then the Hedge Counterparty shall, within 10 Business Days of such ratings downgrade, enter into an agreement with the Issuer providing for the posting of collateral, which agreement satisfies the Rating Condition.

In respect of any Hedge Counterparty (other than the Initial Hedge Counterparty), if the relevant Hedge Rating Determining Party fails to satisfy the Ratings Threshold, then such Hedge Counterparty shall assign its rights and obligations in and under the related Hedge Agreement (at its own expense) to another Hedge Counterparty that has ratings at least equal to the Hedge Counterparty Ratings Requirement.

In respect of the Initial Hedge Counterparty:

- (i) if a Collateralization Event occurs, the Initial Hedge Counterparty and the Issuer shall enter into an agreement, solely at the expense of the Initial Hedge Counterparty, in the form of the ISDA Credit Support Annex attached as Annex B to the Interest Rate Hedge Agreement; *provided* that, if the Initial Hedge Counterparty has not, within 30 days following a Collateralization Event, (A) provided sufficient collateral as required under the Hedge Agreement, (B) found another Hedge Counterparty in accordance with clause (iii), (C) obtained a guarantor for the obligations of the Initial Hedge Counterparty under the Hedge Agreement that satisfies the Hedge Counterparty Ratings Requirement or (D) taken such other steps as each Rating Agency that has downgraded the Hedge Rating Determining Party in respect of the Initial Hedge Counterparty may require to cause the obligations of the Initial Hedge Counterparty under the Hedge Agreement to be treated by such Rating Agency as if such obligations were owed by a counterparty having long-term senior unsecured obligations rated not lower than "Aa2" in the case of Moody's, or "AA" in the case of Standard & Poor's, a Ratings Event will be deemed to have occurred;
- (ii) at any time following a Collateralization Event, the Initial Hedge Counterparty may elect, upon 10 days' prior written notice to the Issuer and the Trustee, to transfer the Hedge Agreement and assign its rights and obligations thereunder to another Hedge Counterparty that satisfies the Hedge Counterparty Ratings Requirement in accordance with the terms of the related Hedge Agreement, *provided* that such transfer satisfies the Rating Condition;
- (iii) at any time following a Collateralization Event, the Initial Hedge Counterparty may terminate the Hedge Agreement on any Distribution Date; *provided* that (i) the Initial Hedge Counterparty has identified another Hedge Counterparty that satisfies the Hedge Counterparty Ratings Requirement and (ii) the entry into any replacement Interest Rate Hedge Agreement in connection with such termination satisfies the Rating Condition;
- (iv) following the occurrence of a Ratings Event, the Issuer may terminate the Hedge Agreement unless the Initial Hedge Counterparty shall either (i) assign its rights and obligations in and under the Hedge Agreement (at its own expense) to another Hedge Counterparty that has ratings at least equal to the Hedge Counterparty Ratings Requirement in accordance with the terms of the Interest Rate Hedge Agreement or (ii) if the Initial Hedge Counterparty is unable to assign its rights and obligations within 30 days, enter into any other agreement with or arrangement for the benefit of the

Issuer and the Trustee that is reasonably satisfactory to the Trustee on behalf of the Issuer and that satisfies the Rating Condition.

"Collateralization Event" means, in respect of the Initial Hedge Counterparty, the occurrence of any of the following: (i) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Standard & Poor's is withdrawn, suspended or falls below "AA-"; (ii) the short-term issuer credit rating of the Hedge Rating Determining Party from Standard & Poor's is withdrawn, suspended or falls below "A-1+"; (iii) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Moody's is withdrawn, suspended or falls to (but not on credit watch with negative implications) or below "Aa3", if the Hedge Rating Determining Party has a long-term rating only; (iv) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Moody's is withdrawn, suspended or falls to (but not on credit watch with negative implications) or below "A1" or the short-term senior unsecured debt rating of the Initial Hedge Counterparty, or if no such rating is available, the Hedge Rating Determining Party or an affiliate thereof from Moody's, if so rated by Moody's, falls to (but not on credit watch with negative implications) or below "P-1"; (v) if rated by Fitch, the short-term issuer credit rating of the Hedge Rating Determining Party is withdrawn, suspended or falls below "F1+"; or (vi) if rated by Fitch but there is no short-term issuer credit rating of the Hedge Rating Determining Party, the long-term issuer credit rating of the Hedge Rating Determining Party from Fitch is withdrawn, suspended or falls below "AA-".

"Hedge Rating Determining Party" means, with respect to the Hedge Agreement, (a) unless clause (b) applies with respect to the Hedge Agreement, the related Hedge Counterparty or any transferee thereof or (b) any Affiliate of the related Hedge Counterparty or any transferee thereof that unconditionally and absolutely guarantees (pursuant to a form of guarantee that satisfies all applicable published rating criteria of the Rating Agencies) the obligations of such Hedge Counterparty or such transferee, as the case may be, under the Hedge Agreement. For the purpose of this definition, no direct or indirect recourse against one or more shareholders of the Hedge Counterparty or any such transferee (or against any Person in control of, or controlled by, or under common control with, any such shareholder) shall be deemed to constitute a guarantee, security or support of the obligations of such Hedge Counterparty or any such transferee.

The "Hedge Counterparty Ratings Requirement" means, with respect to the Hedge Counterparty or any transferee thereof, (a) either (i) the unsecured, unguaranteed and otherwise unsupported short-term debt obligations of the related Hedge Rating Determining Party are rated at least "A-1" by Standard & Poor's or (ii) if no short term debt obligations of such Hedge Rating Determining Party are rated by Standard & Poor's, the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated at least "A+" by Standard & Poor's, (b)(i)(x) the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated higher than "A1" by Moody's or are rated "A1" by Moody's and (y) the unsecured, unguaranteed and otherwise unsupported short-term debt obligations of such Hedge Rating Determining Party are rated at least "P-1" by Moody's or (ii) if there is no Moody's short-term debt obligations rating, the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated higher than "Aa3" by Moody's or are rated "Aa3" by Moody's and (c) either (i) the unsecured, unguaranteed and otherwise unsupported short-term debt obligations of such Hedge Rating Determining Party are rated at least "F1" by Fitch or (ii) if there is no such short-term debt rating by Fitch, the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated at least "A" by Fitch. With respect to the Initial Hedge Counterparty and any replacement thereof, clause (c) of this definition of "Hedge Counterparty Ratings Requirement" shall only apply if the related Hedge Rating Determining Party is rated by Fitch.

"Ratings Event" means, with respect to the Hedge Agreement entered into on the Closing Date between the Issuer and the Initial Hedge Counterparty, the occurrence of any of the following: (i) the long-term senior unsecured debt rating of the related Hedge Rating Determining Party from Moody's is withdrawn, suspended or falls to or below "A2", if the related Hedge Rating Determining Party has a long-term rating only; (ii) the long-term senior unsecured debt rating of the related Hedge Rating Determining Party from Moody's is withdrawn, suspended or falls to or below "A3" or the short-term senior unsecured debt rating of the Initial Hedge Counterparty, or if no such rating is available, of the Hedge Rating Determining Party or an affiliate thereof from Moody's, if so rated by Moody's, falls to or below "P-2"; (iii) the long-term senior unsecured debt rating of the related Hedge Rating Determining Party from Standard & Poor's is withdrawn, suspended or falls below "A-"; (iv) the short-term issuer credit rating of the related Hedge Rating Determining Party from Standard & Poor's is withdrawn, suspended or falls below "A-1"; (v) if rated by Fitch, the short-term issuer credit rating of the related Hedge Rating Determining Party from Fitch is withdrawn, suspended or falls below "F1"; (vi) if rated by Fitch but there is no such short-term credit rating from Fitch, the long-term issuer credit rating of the related Hedge Rating Determining Party from Fitch is withdrawn, suspended or falls below "A-"; or (vii) the failure of the related Hedge Counterparty to provide, within 10 days following a Collateralization Event, sufficient collateral as required under the Indenture and the Hedge Agreement.

"Ratings Threshold" means, with respect to the Hedge Counterparty (other than the Initial Hedge Counterparty), (a) either (i) the unsecured, unguaranteed and otherwise unsupported short-term debt obligations of the related Hedge Rating Determining Party are rated at least "A-1" by Standard & Poor's or (ii) if the related Hedge Rating Determining Party does not have a short-term rating from Standard & Poor's, the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated at least "A+" by Standard & Poor's, (b) (i) the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of the related Hedge Rating Determining Party are rated at least "A3" by Moody's and (ii) the unsecured, unguaranteed and otherwise unsupported short-term debt obligations of such Hedge Rating Determining Party are rated at least "P-1" by Moody's and (c) either (i) the unsecured, unguaranteed and otherwise unsupported short-term debt obligations of the related Hedge Rating Determining Party are rated at least "F1" by Fitch or (ii) if there is no such short-term rating by Fitch, the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated at least "A" by Fitch. With respect to any Hedge Counterparty replacing the Initial Hedge Counterparty, clause (c) of this definition of "Ratings Threshold" shall only apply if the related Hedge Rating Determining Party is rated by Fitch.

The Hedge Agreement will be subject to termination upon the earlier to occur of (a) an Event of Default followed by the liquidation of the Collateral in accordance with the Indenture and (b) any Auction Call Redemption, Optional Redemption or Tax Redemption. In the event that amounts are applied to the redemption of Notes on any Distribution Date in accordance with the Priority of Payments by reason of a Rating Confirmation Failure or a failure to satisfy any of the Coverage Tests, then, subject to the satisfaction of the Rating Condition, the floating-fixed rate interest swap under the Hedge Agreement will be subject to partial termination on such Distribution Date with respect to a portion of the notional amount thereof equal to the aggregate outstanding principal amount of Notes so redeemed on such Distribution Date. In addition, subject to satisfaction of the Rating Condition with respect to such reduction, the Collateral Manager and a Majority-in-Interest of Preference Shareholders (acting together) may on any Distribution Date direct the Issuer to reduce the notional amount of any interest rate swap or cap outstanding under the Hedge Agreement. Upon any such termination or reduction of a notional amount, a termination payment with respect to the notional amount terminated or reduced may become payable by the Hedge Counterparty or the Issuer to the

other party under the Hedge Agreement, with such termination payment being calculated as described below.

Amounts payable upon any such termination or reduction will be based upon standard replacement transaction valuation methodology set forth in the 1992 ISDA Master Agreement published by the International Swaps and Derivatives Association, Inc. If any amount is payable by the Issuer to the Hedge Counterparty in connection with the occurrence of any such partial termination or notional amount reduction, such amount, together with interest on such amount for the period from and including the date of termination to but excluding the date of payment at a rate per annum (calculated using a 30/360 Day Count Fraction) equal to the interest rate from time to time payable on the Class A Notes, shall be payable on such Distribution Date to the extent funds are available for such purpose in accordance with the Priority of Payments, and any amount not so paid on such Distribution Date shall be payable on the first Distribution Date on which such amount may be paid in accordance with the Priority of Payments.

The obligations of the Issuer under the Hedge Agreement are limited recourse obligations payable solely from the Collateral pursuant to the Priority of Payments.

The Accounts

Collection Accounts

All distributions on the Collateral Debt Securities and any proceeds received from the disposition of any such Collateral Debt Securities, to the extent such distributions or proceeds constitute Interest Proceeds, and any amounts payable to the Issuer by the Hedge Counterparty under the Hedge Agreement will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the "Interest Collection Account"), except that certain Interest Proceeds received during any Due Period with respect to any Semi-Annual Pay Security will be deposited in the Interest Equalization Account. All distributions on the Collateral Debt Securities and any proceeds received from the disposition of any such Collateral Debt Securities to the extent such distributions or proceeds constitute Principal Proceeds (unless simultaneously reinvested in Collateral Debt Securities or Eligible Investments) will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the "Principal Collection Account" and, together with the Interest Collection Account, the "Collection Accounts"). The Collection Accounts shall be maintained for the benefit of the Noteholders and amounts on deposit therein will be available, together with reinvestment earnings thereon, for application in the order of priority set forth above under "Description of the Notes—Priority of Payments" and for the acquisition of Collateral Debt Securities under the circumstances and pursuant to the requirements described herein and in the Indenture.

Amounts received in the Collection Accounts during a Due Period and amounts received in prior Due Periods and retained in the Collection Accounts under the circumstances set forth above in "Description of the Notes—Priority of Payments" will be invested in Eligible Investments (as described below) with stated maturities no later than the Business Day immediately preceding the next Distribution Date. All such proceeds will be retained in the Collection Accounts unless used to purchase Collateral Debt Securities on or prior to the last day of the Substitution Period in accordance with the Reinvestment Criteria, to honor commitments with respect thereto entered into prior to the last day of the Substitution Period, or used as otherwise permitted under the Indenture. See "—Reinvestment Criteria".

"Eligible Investments" include any Dollar-denominated investment that is one or more of the following (and may include investments for which the Trustee and/or its affiliates provides services or receives compensation):

- (a) cash;
- (b) direct Registered obligations of, and Registered obligations the timely payment of principal and interest on which is fully and expressly guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States;
- (c) demand and time deposits in, certificates of deposit of, bankers' acceptances payable within 183 days of issuance issued by, or Federal funds sold by any depository institution or trust company incorporated under the laws of the United States or any state thereof and subject to supervision and examination by Federal and/or state banking authorities so long as the commercial paper and/or the debt obligations of such depository institution or trust company (or, in the case of the principal depository institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of not less than "Aa2" by Moody's, "AA+" by Standard & Poor's and "AA+" by Fitch in the case of long-term debt obligations, or "P-1" by Moody's, "A-1+" by Standard & Poor's and "F1+" by Fitch in the case of commercial paper and short-term debt obligations; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than "Aa2" by Moody's and "AA+" by Fitch, and (ii) in the case of commercial paper and short-term debt obligations with a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and "AA+" by Fitch;
- (d) unleveraged repurchase obligations with respect to (i) any security described in clause (b) above or (ii) any other Registered security issued or guaranteed by an agency or instrumentality of the United States (in each case without regard to the Stated Maturity of such security), in either case entered into with a U.S. Federal or state depository institution or trust company (acting as principal) described in clause (c) above or entered into with a corporation (acting as principal) whose long-term rating is not less than "Aa2" by Moody's, "AA+" by Standard & Poor's and "AA+" by Fitch or whose short-term credit rating is "P-1" by Moody's, "A-1+" by Standard & Poor's and "F1+" by Fitch at the time of such investment; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than "Aa2" by Moody's and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and "AA+" by Fitch;
- (e) Registered debt securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof that have a credit rating of not less than "Aa2" by Moody's, "AA+" by Standard & Poor's and "AA+" by Fitch;
- (f) commercial paper or other short-term obligations with a maturity of not more than 183 days from the date of issuance and having at the time of such investment a credit rating of "P-1" by Moody's, "A-1+" by Standard & Poor's and "F1+" by Fitch; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than "Aa2" by Moody's and "AA+" by Fitch, and (ii) if such security has a maturity of longer

than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and "AA+" by Fitch;

- (g) Registered reinvestment agreements issued by any bank or any insurance company or other corporation or entity organized under the laws of the United States or any state thereof, in each case, that has a credit rating of not less than "P-1" by Moody's, "A-1+" by Standard & Poor's and "F1+" by Fitch; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than "Aa2" by Moody's and "AA+" by Fitch, and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and "AA+" by Fitch; and
- (h) interests in any money market fund or similar investment vehicle having at the time of investment therein the highest credit rating assigned by each of the Rating Agencies; *provided* that such fund or vehicle is formed and has its principal office outside the United States;

and, in each case (other than clause (a)), with a Stated Maturity (giving effect to any applicable grace period) no later than the Business Day immediately preceding the Distribution Date next following the Due Period in which the date of investment occurs; *provided* that Eligible Investments may not include (i) any mortgaged-backed security, (ii) any Interest Only Security, (iii) any security purchased at a price in excess of 100% of the par value thereof, (iv) any investment the income or the proceeds of the disposition of which is or will be subject to deduction or withholding for or on account of any withholding or similar tax or the acquisition (including the manner of acquisition), ownership, enforcement or disposition of which will subject the Issuer to net income tax in any jurisdiction, (v) any security or obligation the Rating of which from Standard & Poor's includes the subscript "r", "t", "p", "pi" or "q", (vi) any security whose repayment is subject to substantial non-credit related risk as determined in the judgment of the Collateral Manager (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), (vii) any Floating Rate Security whose interest rate is inversely or otherwise not proportionately related to an interest rate index or is calculated as other than the sum of an interest rate index plus a spread or (viii) any security that is subject to an Offer.

Interest Equalization Account

During any Due Period, the Trustee will deposit such amount of distributions received on any Semi-Annual Pay Security during any Due Period that the Collateral Manager reasonably determines necessary to equalize quarterly interest cash flows and to the extent such distributions or proceeds constitute Interest Proceeds. Such amounts will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the "Interest Equalization Account"). The Interest Equalization Account shall be maintained for the benefit of the Noteholders, and amounts deposited therein in respect of any Due Period will be available, together with investment earnings thereon, for payment to the Interest Collection Account on the last day of the next succeeding Due Period (to be applied as "Interest Proceeds"). In addition, in connection with any redemption of the Notes, the full amount on deposit in the Interest Equalization Account will be paid to the Interest Collection Account and available to pay the redemption price of the Notes as if such amount had originally been on deposit in the Interest Collection Account. Amounts on deposit in the Interest Equalization Account will be invested in Eligible Investments with stated maturities no later than the last day of the next succeeding Due Period.

As used herein, "Semi-Annual Pay Security" means any Collateral Debt Security that, pursuant to the terms of the related Underlying Instruments, pays interest no more frequently than semi-annually.

Payment Account

On or prior to the Business Day prior to each Distribution Date, the Trustee will deposit into a single, segregated account established and maintained by the Trustee under the Indenture (the "Payment Account") for the benefit of the Noteholders all funds in the Collection Accounts (other than amounts that the Issuer is entitled to reinvest in accordance with the Reinvestment Criteria, which may be retained in the Collection Accounts for subsequent reinvestment, if the Issuer so elects as set forth in the Indenture) required for payments to Noteholders and payments of fees and expenses in accordance with the priority described under "Description of the Notes—Priority of Payments".

Uninvested Proceeds Account

On the Closing Date, the Trustee will deposit into a single, segregated account established and maintained by the Trustee under the Indenture (the "Uninvested Proceeds Account") all Uninvested Proceeds (other than the organizational and structuring fees and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Initial Purchaser and the Collateral Manager), the expenses of offering the Offered Securities and amounts deposited in the Expense Account on such date). The Collateral Manager on behalf of the Issuer may direct the Trustee to, and upon such direction the Trustee shall, invest funds in the Uninvested Proceeds Account in (a) Collateral Debt Securities, (b) Eligible Investments or (c) U.S. Agency Securities designated by the Collateral Manager; *provided* that, (i) after the Ramp-Up Completion Date, the Issuer shall not be permitted to hold any U.S. Agency Securities in the Uninvested Proceeds Account and (ii) the maximum aggregate principal balance of U.S. Agency Securities the Issuer may hold at any time in the Uninvested Proceeds Account is U.S.\$50,000,000. Interest and other income from such investments shall be deposited in the Uninvested Proceeds Account, any gain realized from such investments shall be credited to the Uninvested Proceeds Account, and any loss resulting from such investments shall be charged to the Uninvested Proceeds Account. Investment earnings on Eligible Investments and U.S. Agency Securities in the Uninvested Proceeds Account will be transferred to the Interest Collection Account and treated as Interest Proceeds on the first Distribution Date. The Trustee shall transfer any Uninvested Proceeds remaining on deposit in the Uninvested Proceeds Account on the Ramp-Up Completion Date to the Payment Account to be treated as Principal Proceeds on the next Distribution Date and distributed in accordance with the Priority of Payments.

"U.S. Agency Securities" means obligations of (i) the U.S. Treasury, (ii) any Federal agency or instrumentality of the United States of America or (iii)(A) the Federal National Mortgage Association, (B) the Student Loan Marketing Association or (C) the Federal Home Loan Mortgage Corporation, in each case with a stated maturity that does not exceed final maturity of the Notes.

Expense Account

On the Closing Date, after payment of the organizational and structuring fees and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Initial Purchaser and the Collateral Manager) and the expenses of offering the Offered Securities, U.S.\$100,000 from the proceeds of the offering of the Offered Securities will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the "Expense Account"). All funds on deposit in the Expense Account will be invested in

Eligible Investments. On each Distribution Date, to the extent that funds are available for such purpose in accordance with the Priority of Payments and subject to the dollar limitation set forth in clause (2) under "Description of the Notes—Priority of Payments—Interest Proceeds", the Trustee will deposit into the Expense Account an amount from Interest Proceeds (and, to the extent that Interest Proceeds are insufficient, from Principal Proceeds) such that the amount on deposit in the Expense Account (after giving effect to such deposit) will equal U.S.\$100,000. Amounts on deposit in the Expense Account may be withdrawn from time to time to pay accrued and unpaid expenses of the Co-Issuers (other than fees and expenses of the Trustee and the Collateral Management Fee, but including other amounts payable by the Issuer to the Collateral Manager under the Collateral Management Agreement or the Indenture). All funds on deposit in the Expense Account at the time when substantially all of the Issuer's assets have been sold or otherwise disposed of (as determined by the Collateral Manager) will be deposited by the Trustee into the Payment Account for application as Interest Proceeds on the immediately succeeding Distribution Date.

Interest Reserve Account

On the Closing Date, after payment of the organizational and structuring fees and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Initial Purchaser and the Collateral Manager) and the expenses of offering the Offered Securities, U.S.\$100,000 from the proceeds of the offering of the Offered Securities will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the "Interest Reserve Account"). The only permitted withdrawal from or application of funds on deposit in, or otherwise standing to the credit of, the Interest Reserve Account shall be as follows: (A) at least one Business Day prior to the first Distribution Date, the Trustee will transfer U.S.\$100,000 from the Interest Reserve Account to the Payment Account for application (x) as Interest Proceeds on the first Distribution Date for distribution to the Holders of Class A-1 Notes if, and only to the extent, necessary for the Holders of the Class A-1 Notes to receive the Interest Distribution Amount due and payable in respect of such Class A-1 Notes on such first Distribution Date pursuant to clause (4) under "Description of the Notes—Priority of Payments—Interest Proceeds" and (y) to the extent that there are any amounts remaining after application as provided in the preceding clause (x), for application as Interest Proceeds in accordance with the Priority of Payments.

"Interest Distribution Amount " means, with respect to any Class of Notes and any Distribution Date, the sum of (i) the aggregate amount of interest accrued at the Note Interest Rate for such Class, during the Interest Period ending immediately prior to such Distribution Date, on the aggregate outstanding amount of the Notes of such Class on the first day of such Interest Period (after giving effect to any redemption of the Notes of such Class or other payment of principal of the Notes of such Class on any preceding Distribution Date) plus (ii) any Defaulted Interest in respect of the Notes of such Class and accrued interest thereon. The "Interest Distribution Amount" for any Distribution Date for the Class C Notes will not include any Class C Deferred Interest.

THE COLLATERAL MANAGER

The information appearing in this section (other than the information contained under the heading "General") has been prepared by the Collateral Manager and has not been independently verified by the Co-Issuers or the Initial Purchaser. Accordingly, the Collateral Manager assumes the responsibility for the accuracy, completeness or applicability of such information.

General

Certain administrative and advisory functions with respect to the Collateral will be performed by the Collateral Manager under the Collateral Management Agreement to be entered into on the Closing Date between the Issuer and the Collateral Manager (the "Collateral Management Agreement"). In accordance with the Collateral Quality Tests and the Coverage Tests and other requirements set forth in the Indenture, and in accordance with the provisions of the Collateral Management Agreement, the Collateral Manager will select the portfolio of Collateral Debt Securities and Eligible Investments, and the Collateral Manager will instruct the Trustee with respect to any disposition or tender of a Collateral Debt Security and investment in Eligible Investments. Pursuant to the terms of the Collateral Management Agreement, the Collateral Manager will monitor the Collateral Debt Securities and provide the Issuer with certain information as described below, with respect to the composition of the Collateral Debt Securities, any disposition or tender of a Collateral Debt Security, the reinvestment of the proceeds of any such disposition in Eligible Investments and with respect to the retention of the proceeds of any such disposition or the application thereof toward the purchase of any other Collateral Debt Security. In addition, pursuant to the terms of the Collateral Administration Agreement among the Issuer, the Collateral Manager and JPMorgan Chase Bank (the "Collateral Administration Agreement"), the Issuer will retain JPMorgan Chase Bank as collateral administrator (the "Collateral Administrator"), to prepare certain reports with respect to the Collateral Debt Securities. The compensation paid to the Collateral Administrator by the Issuer for such services will be in addition to the fees paid to the Collateral Manager and to the Trustee in its capacity as Trustee, and will be treated as an expense of the Issuer under the Indenture and will be subject to the priorities set forth under "Description of the Notes—Priority of Payments".

The Indenture places significant restrictions on the Collateral Manager's ability to advise the Issuer to buy and sell securities for inclusion in the Collateral, and the Collateral Manager is subject to compliance with such restrictions. Accordingly, during certain periods or in certain specified circumstances, the Issuer may be unable to buy or sell securities or to take other actions which the Collateral Manager might consider in the best interests of the Issuer and the Noteholders.

The Collateral Manager and its Affiliates may engage in other business and furnish investment management, advisory and other types of services to other clients whose investment policies differ from those followed by the Collateral Manager on behalf of the Issuer, as required by the Indenture. The Collateral Manager may make recommendations to or effect transactions for such other clients which may differ from those effected with respect to the Collateral Debt Securities. After the Closing Date, the Issuer will not purchase or sell any Asset-Backed Securities directly from or to the Collateral Manager or any such Affiliate, or unless in compliance with any applicable laws, from or to any such client.

Many of the Collateral Debt Securities purchased by the Issuer on the Closing Date will be purchased from a portfolio of Collateral Debt Securities held by MLPFS or an affiliate of MLPFS pursuant to the Warehousing Agreement. The Collateral Manager serves as an investment adviser pursuant to the Warehousing Agreement. Some of the Collateral Debt Securities subject to the Warehousing Agreement may have been originally acquired by MLPFS or an affiliate of MLPFS, in connection with its underwriting or placement thereof. The Issuer will purchase Collateral Debt Securities from the Initial Purchaser or affiliate of the Initial Purchaser only to the extent the Collateral Manager determines that such purchases are consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law. In any event, all purchases of such Collateral Debt Securities from any third party (including the Collateral Manager and its Affiliates and the Initial Purchaser or any of its affiliates) will be (a) at fair market value (determined at the time such Collateral Debt Security is originally acquired pursuant to the Warehousing Agreement) and otherwise on an "arm's-length basis" and (b) consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law. See "Risk Factors—Certain Conflicts of Interest—Purchase of Collateral Debt Securities".

The Collateral Manager, its Affiliates and accounts for which the Collateral Manager or any Affiliate thereof acts as investment adviser may at times own Offered Securities. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Offered Securities held by any of such Collateral Manager, its Affiliates and accounts for which such Collateral Manager or any Affiliate thereof acts as investment adviser (and for which such Collateral Manager or such Affiliate has discretionary authority) with respect to any assignment or termination of, any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any rights to remove such Collateral Manager or terminate the Collateral Management Agreement or approve or object to a Replacement Officer), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote Offered Securities held by them and by such accounts with respect to all other matters. See "Risk Factors—Certain Conflicts of Interest".

Declaration Management & Research LLC

Declaration Management & Research LLC (formerly named "Independence Fixed Income LLC"), a Delaware limited liability company ("Declaration"), will act as Collateral Manager to the Issuer (in such capacity, together with any successor, the "Collateral Manager") and in such capacity will be responsible for certain administrative and investment advisory functions relating to the Collateral Debt Securities, the Hedge Agreement and other assets included in the Collateral. The offices of Declaration are located at 1650 Tysons Boulevard, Suite 1100, McLean, Virginia 22102. The Collateral Manager is a registered investment adviser under the Investment Advisers Act of 1940, as amended. Copies of its most recent Form ADV Part I are publicly available and copies of its most recent Form ADV Part II are available upon request from the Collateral Manager.

Declaration is an indirect wholly-owned subsidiary of John Hancock Life Insurance Company, which in turn is wholly owned by John Hancock Financial Services, Inc. ("JHF"), a public company. As of December 31, 2003, Declaration had total assets under management of approximately U.S.\$9.1 billion. Declaration is the collateral manager of five issuers of collateral debt obligations: Independence I CDO, Ltd., which completed its initial offering in December 2000, Independence II CDO, Ltd., which completed its initial offering in July 2001,

Independence III CDO, Ltd., which completed its initial offering in May 2002, Independence IV CDO, Ltd., which completed its initial offering in June 2003 and Declaration Funding I, Ltd., which completed its initial offering in May 1999.

On September 28, 2003, JHF announced its intent to merge with Manulife Financial Corporation. The merger transaction, which is expected to close in the second quarter of 2004, is subject to regulatory approvals.

JHF is one of the leading financial services companies in the United States, providing a broad array of insurance and investment products and services to retail and institutional customers, primarily in North America. As of December 31, 2003, JHF had assets under management (including John Hancock assets) of U.S.\$142.5 billion.

Investment Strategy

Declaration has been investing in mortgage and asset-backed securities since the inception of the firm in 1989. Senior management personnel have been working together, at Declaration, for over fourteen years. In that time, Declaration has developed an investing strategy designed to deliver strong performance in a risk-controlled manner. Declaration intends to apply this strategy in managing the assets of the Issuer. Consistent with its top-down investment style, Declaration will focus on those sectors of the ABS market that have the potential to provide relatively high risk-adjusted returns. Declaration will seek to include in the Issuer's portfolio securities of newer, less liquid ABS sectors, which may reward investors with relatively high levels of credit support, as well as securities of relatively seasoned sectors, to achieve the Issuer's diversification goals. Declaration generally seeks to invest in those sectors of the ABS market that feature collateral preservation, and those which impose significant default disincentives upon securities issuers. Declaration seeks to avoid the securities of ABS sectors characterized by ill-conceived fundamental lending practices, diminished issuer contact at the servicer level, or the absence of underlying tangible, marketable assets.

Declaration seeks direct contact with issuers and servicers, preferably including on-site visits followed by ongoing telephone dialogue. Each potential investment is subject to a formalized review and must pass a unanimous vote of Declaration's ABS investment subcommittee before being approved for purchase. This process includes a comparison of the issuer's collateral pool to the issuer's and competitors' previous offerings, an analysis of issuer risk appetite in the form of equity retention or performance guarantees, and servicer review. The Declaration credit and equity analysts are engaged as necessary. A review of the legal framework of the offering is also conducted. The potential investment is then stress-tested to multiples of default, recovery, and prepayment assumptions to assess the sufficiency of credit support and integrity of the potential investment's structure.

Ongoing credit review is proactively undertaken with the goal of detecting and addressing potential credit issues before they substantially deteriorate. Internal research is complemented with information from a variety of outside vendors, and discussions with issuers, servicers, trustees and relevant rating agencies are conducted regularly. Monthly surveillance on all securities begins with an evaluation of each security's remittance report. Securities are then stress-tested to update default assumptions and confirm appropriate levels of credit support. This information is maintained and monitored in Declaration's proprietary surveillance system. Highlights and anomalies are promptly brought to the attention of Declaration's senior portfolio managers for review.

Declaration's systems group has developed a CDO compliance module which is integrated into its analytic and risk management system. Portfolio testing is performed both on a per-trade and periodic basis to maintain portfolio restriction compliance and enhance reporting accuracy.

Biographies

Set forth below are the professional experiences of certain officers and employees of the Collateral Manager. Such persons will not be engaged full time in the management of the Collateral. Such persons may not necessarily continue to be so employed during the entire term of the Collateral Management Agreement or may not continue to perform services for the Collateral Manager under the Collateral Management Agreement.

William P. Callan, Jr., President

Bill is the president of Declaration, chairs the Declaration Investment Committee, manages portfolios, oversees research and product development, and is a firm principal. He has been in the industry since 1985 and joined Declaration in 1988. Previously, Bill worked for Merrill Lynch Capital Markets. He has a BBA in Finance from the Bernard M. Baruch College of the City University of New York. Bill is Series 7 licensed.

James E. Shallcross, Senior Vice President, Director of Fixed Income Investments

Jim oversees the management of all fixed income portfolios, supervises the investment staff and is a firm principal. He has been in the industry since 1986 and joined Declaration in 1991. Previously, Jim worked for Lehman Brothers and Stephenson & Co. He has a BSBA in Finance from the University of Denver and an MBA in Finance from New York University. Jim is a member of the Declaration Investment Committee.

Michael E. Stern, Senior Vice President, Director of Structured Products

Michael oversees Declaration's structured finance portfolios and funding programs and is a firm principal. He joined Declaration in 1988. Michael has a BS in Computer Science from Northwestern University. He is a member of the Declaration Investment Committee.

Wade M. Walters, Senior Vice President, Senior Portfolio Manager

Wade is the head of ABS research and trading, supervises the management of Declaration's short-term portfolios, and is a firm principal. He has been in the industry since 1988 and joined Declaration in 1990. Previously, Wade worked for the First National Bank of Maryland. He has an AS in Engineering from Johns Hopkins University, a BS from the University of Baltimore and an MS in Finance from Drexel University. Wade is a member of the Declaration Investment Committee.

Jin K. Kim, PhD, Vice President

Jin researches, manages and trades Mortgages, Agencies, Treasuries, and fixed income derivatives and runs the fixed income basis overlay portfolios. He joined Declaration in 1996. Previously, Jin was a teaching fellow at the University of Michigan Economics Department. He

graduated Magna Cum Laude from Georgetown University and has a PhD in Economics from the University of Michigan.

Jennifer P. Bowers, CFA, Vice President

Jennifer assists in managing short-term cash portfolios, trades and marks ABS and MBS positions, and assists in analyzing current and prospective ABS and MBS portfolio positions. She joined Declaration in 1993. Jennifer has a BS from Vanderbilt University.

Peter M. Farley, CFA, Vice President

Peter manages fixed income portfolios, trades and marks CMBS and Corporate bonds, and conducts CMBS and Corporate bond research. He has been in the industry since 1995 and joined Declaration in 1996. Previously, Peter worked for GIT Investment Funds. He has a BA in Economics and Political Science from the University of Connecticut. Peter is a member of the Association for Investment Management & Research and the Washington Society of Investment Analysts. He is Series 7 and 63 licensed.

Matthew F. Klinger, Senior Investment Officer

Matthew assists portfolio managers with trade and security pricing and assists with credit surveillance. He joined Declaration in 2000. Matthew has a BA in Finance and Marketing from Franklin & Marshall College.

Demetri Dimopoulos, Senior Investment Associate

Demetri provides trading support functions to our fixed income traders. He has been in the industry since 1998 and joined Declaration in 2000. Demetri has a BS in Finance from the University of Maryland. He is Series 7 and 63 licensed.

Bradley Lutz, CFA, Vice President

Brad conducts Corporate bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. He has been in the industry since 1992 and joined Declaration in 2002. Previously, Brad worked for Pacholder Associates and Summit Investment Partners. He has a BS in Finance from Miami University (Ohio). Brad is a member of the Association of Investment Management & Research.

Dimiter Christof, CFA, Vice President

Dimiter conducts Corporate bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. He has been in the industry since 1988 and joined Declaration in 2001. Previously, Dimiter worked for Allianz AG, Dun & Bradstreet and Creditansalt AG. He has a BS in Finance from the University of Sofia and an MBA in Finance from the University of Akron. Dimiter is a member of the Association of Investment Management & Research, the Baltimore Society of Security Analysts and the Financial Management Association.

William L. Paolino, Jr., Vice President

Will conducts CMBS and Corporate bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. He has been in the industry since 1999 and joined Declaration in 2000. Previously, Will worked for John Hancock, Ernst & Young, Fleet Bank and Aetna. He has a BS in Finance from Syracuse University and an MBA and a JD from the University of Connecticut. Will is a member of the American Bar Association and the American Bankruptcy Institute. He is admitted to practice by the Supreme Judicial Court of the Commonwealth of Massachusetts.

Lijue (Lily) Wang, CPA, CFA, Vice President

Lily conducts ABS and Corporate bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. She has been in the industry since 1992 and joined Declaration in 2001. Previously, Lily worked for the Construction Bank of China and Freddie Mac. She has a BA from Shanghai International Studies University and an MS in Accounting from American University. Lily is a member of the Association for Investment Management & Research, the Washington Society of Investment Analysts and the Maryland Association of CPAs.

Florence L. Sirleaf, Vice President

Florence conducts Corporate bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. She has been in the industry since 1995 and joined Declaration in 2001. Previously, Florence worked for Bank of America, Legg Mason Wood Walker and SpaceVest Management Group. She has a BBA in Finance from Howard University.

Mary Ann Martuccio, Research Officer

Mary Ann assists portfolio managers and analysts with real-estate related asset-backed securities and credit surveillance. She joined Declaration in 2001. Mary Ann has a BA in Economics from Drew University.

Brad A. Murphy, Research Officer

Brad assists portfolio managers and analysts with real-estate related asset-backed securities and credit surveillance. He joined Declaration in 2003. Previously, Brad worked for Chevy Chase Bank as a Risk Analyst. He has a BA in Economics from The University of Florida.

Lester L. Guillard III, Vice President, Head of Operations

Larry oversees our fixed income operations and the operational aspects of our structured products. He has been in the industry since 1995 and joined Declaration in 1999. Previously, Larry worked for Daiwa Securities America and National Westminster Bank. He has a BS from Drexel University.

Matthew J. Roberts, Operations Officer

Matthew balances accounts with custody banks, reports portfolio performance, and assists with the firm's structured products. He joined Declaration in 2002. Previously, Matt worked for Lord, Abnett & Company, Deutsche Bank and Banker's Trust. He has a BA in Government from Cornell University.

THE COLLATERAL MANAGEMENT AGREEMENT

As compensation for the performance of its obligations as collateral manager under the Collateral Management Agreement to be entered into between the Issuer and the Collateral Manager, the Collateral Manager will receive a fee, payable in arrears on each Distribution Date, equal to the sum of the following:

- (i) 0.22% per annum of the average of the aggregate principal balance of the Collateral Debt Securities, Eligible Investments and cash for the Due Period relating to such Distribution Date, excluding amounts distributed as Interest Proceeds or Principal Proceeds on the prior Distribution Date (the "Senior Collateral Management Fee"); and
- (ii) 0.25% per annum of the average of the aggregate principal balance of the Collateral Debt Securities, Eligible Investments and cash for the Due Period relating to such Distribution Date, excluding amounts distributed as Interest Proceeds or Principal Proceeds on the prior Distribution Date (the "Subordinate Collateral Management Fee" and, together with the Senior Collateral Management Fee, the "Collateral Management Fee").

The Senior Collateral Management Fee is payable from Interest Proceeds, prior to any payments on the Offered Securities, and if Interest Proceeds are not sufficient, from Principal Proceeds prior to any payments from such Principal Proceeds on the Offered Securities, in each case subject to the Priority of Payments. The Subordinate Collateral Management Fee is payable from Interest Proceeds, and if Interest Proceeds are not sufficient, from Principal Proceeds, after all payments required to be made on the Notes from such Interest Proceeds or Principal Proceeds have been made but prior to any payments from such Interest Proceeds or Principal Proceeds to the Preference Share Paying and Transfer Agent for payment of dividends on the Preference Shares, in each case subject to the Priority of Payments. The Senior Collateral Management Fee and the Subordinate Collateral Management Fee will accrue from the Closing Date. The Senior Collateral Management Fee, the Subordinate Collateral Management Fee and any accrued and unpaid Senior Collateral Management Fee and Subordinate Collateral Management Fee will be payable in accordance with the priorities set forth under "Description of the Offered Securities—Priority of Payments—Interest Proceeds" and "—Principal Proceeds".

The Collateral Manager and its partners, directors, members, officers, stockholders, managers, employees, agents, accountants, attorneys and affiliates (collectively, the "Collateral Manager Affiliates") will not be liable to the Co-Issuers, the Initial Purchaser, the Trustee or the holders of the Offered Securities, the Hedge Counterparty or any of their respective partners, directors, members, officers, stockholders, managers and affiliates or any other person for any losses, claims, damages, judgments, assessments, demands, charges, costs or other expenses or liabilities of any nature arising from or in connection with the Offering Circular (other than the information for which it has accepted responsibility, including, without limitation, the section of the Offering Circular entitled "The Collateral Manager"), the Collateral Management Agreement, the Indenture and the transactions contemplated thereby or incurred as a result of the actions taken or recommended or for any omissions by the Collateral Manager or any of the Collateral Manager Affiliates under or in connection with the Collateral Management Agreement or the Indenture or for any decrease in the value of the Collateral Debt Securities, except by reason of acts constituting bad faith, willful misconduct or gross negligence or reckless disregard of the

Collateral Manager's duties and obligations under the Collateral Management Agreement or the Indenture.

The Collateral Manager and each Collateral Manager Affiliate will be entitled to indemnification by the Issuer under certain circumstances, in accordance with the Priority of Payments.

The Collateral Manager may be removed for cause upon 15 Business Days' prior written notice by the Issuer or the Trustee which will effect such removal (x) as to clauses (i) through (viii) below, at the direction of a Special-Majority-in-Interest of Preference Shareholders, or holders of 66-2/3%, by outstanding principal amount, of the Controlling Class of Notes (excluding any Notes and Preference Shares held by the Collateral Manager or its Affiliates and accounts for which the Collateral Manager or its Affiliates acts as investment adviser (and for which the Collateral Manager or any such Affiliate has discretionary authority)) and (y) as to clause (ix) below, if prior written consent to a Change of Control (as defined in the Collateral Management Agreement) referred to in clause (ix) below is not obtained from a Majority of the Controlling Class and a Majority-in-Interest of Preference Shareholders (excluding any Notes and Preference Shares held by the Collateral Manager or its Affiliates and accounts for which the Collateral Manager or its Affiliates acts as investment adviser (and for which the Collateral Manager or any such Affiliate has discretionary authority)). For purposes of the Collateral Management Agreement, "cause" means (i) the Collateral Manager willfully breaches, or takes any action that it knows violates, any provision of the Collateral Management Agreement or any term of the Indenture applicable to it; (ii) the Collateral Manager breaches in any material respect any provision of the Collateral Management Agreement or any terms of the Indenture applicable to it and fails to cure such breach within 30 days after notice of such failure is given to the Collateral Manager unless, if such failure is remediable, the Collateral Manager has taken action that the Collateral Manager in good faith believes will remedy, and that does in fact remedy, such failure within 90 days after notice of such failure is given to the Collateral Manager; (iii) the Collateral Manager (A) ceases to be able to, or admits in writing its inability to, pay its debts when and as they become due, (B) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or takes advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (C) makes an assignment for the benefit of its creditors, (D) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or (E) is adjudicated as insolvent or to be liquidated; (iv) the occurrence of an act by the Collateral Manager that constitutes fraud or criminal activity in the performance of its obligations under the Collateral Management Agreement or the Collateral Manager being convicted for a criminal offense materially related to its primary business, in each case pursuant to final adjudication by a court of competent jurisdiction; (v) an Event of Default under the Indenture (other than an Event of Default referred to in clause (iv) of the definition thereof); (vi) either of the Co-Issuers or the pool of Collateral becomes an investment company required to be registered under the Investment Company Act resulting from actions taken or recommended by the Collateral Manager and such requirement has not been eliminated after a period of 45 days; (vii) the Collateral Manager consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another person and either (A) at the time of such consolidation, amalgamation, merger or transfer, the resulting, surviving or transferee person fails to assume all the obligations of such party under the Collateral Management Agreement by operation of law or pursuant to an agreement reasonably satisfactory to the other party to the Collateral Management Agreement or (B) the creditworthiness of the resulting, surviving or transferee person is materially weaker than that of such party immediately prior to such action; (viii) the

Collateral Manager changes the location from which it performs its duties under the Collateral Management Agreement if such change in location would cause adverse tax consequences to the Issuer or (ix) a Change of Control (as defined in the Collateral Management Agreement) occurs with respect to the Collateral Manager. If any such event occurs, the Collateral Manager shall give prompt written notice thereof to the Issuer, the Trustee and the holders of all outstanding Notes promptly upon the Collateral Manager's becoming aware of the occurrence of such event.

The Collateral Manager shall have the right to resign and terminate the Collateral Management Agreement (i) upon 90 days' written notice to the Issuer, or (ii) upon any change in applicable law or regulation that renders the performance by the Collateral Manager of its duties under the Indenture or the Collateral Management Agreement to be a violation of such law or regulation or may be removed (without cause) by the Issuer at the direction of the holders of not less than 66-2/3% in aggregate principal amount of the Notes, voting together as a single class and a Special-Majority-in-Interest of Preference Shareholders, upon 45 days' prior written notice; *provided* that Notes and Preference Shares owned by, or subject to the discretionary voting authority of, the Collateral Manager or any Affiliate thereof will be disregarded and deemed to be not outstanding for this purpose. In addition, the Collateral Management Agreement shall terminate automatically in the event of its assignment by the Collateral Manager in violation of the Collateral Management Agreement.

The Collateral Management Agreement and any obligations or duties of the Collateral Manager thereunder may not be delegated by the Collateral Manager, in whole or in part, without the prior written consent of the Issuer, a Majority-in-Interest of Preference Shareholders and a Majority of the Controlling Class of Notes (excluding any Notes or Preference Shares held by the Collateral Manager or its Affiliates and accounts for which the Collateral Manager or its Affiliates acts as investment advisor and for which the Collateral Manager or any such Affiliate has discretionary authority). Notwithstanding the foregoing, the Collateral Manager may assign all of its rights (but not its obligations) under the Collateral Management Agreement to an Affiliate without the consent of the Issuer, the Trustee, the Noteholders or the Preference Shareholders. No such delegation of obligations or duties by the Collateral Manager shall relieve the Collateral Manager from any liability thereunder. The Collateral Management Agreement provides that the Collateral Manager shall provide prior written notice of any assignment or delegation to each of the Rating Agencies. Any assignment of the Collateral Management Agreement, by operation of law or otherwise, to any Person, in whole or in part, by the Collateral Manager will be deemed null and void under the Collateral Management Agreement unless such assignment is consented to in writing by the parties required to consent to a Change of Control (as defined in the Collateral Management Agreement).

No removal, termination or resignation of the Collateral Manager will be effective unless (a) a successor collateral manager (the "Replacement Manager") has agreed in writing to assume all of the Collateral Manager's duties and obligations pursuant to the Collateral Management Agreement and (b) the Replacement Manager is not objected to by holders of at least 75% in aggregate outstanding principal amount of the Controlling Class of Notes or more than 50% of the aggregate liquidation preference of the Preference Shares within 30 days after notice (Notes and Preference Shares owned by, or subject to the discretionary voting authority of, the Collateral Manager or any Affiliate thereof will be disregarded and deemed to be not outstanding for this purpose). In addition, no removal or resignation of the Collateral Manager while any Offered Securities are outstanding will be effective until the appointment by the Issuer of a Replacement Manager that is an established institution which (i) is legally qualified and has the capacity to act as collateral manager under the Collateral Management Agreement, as

successor to the Collateral Manager thereunder in the assumption of all of the responsibilities, duties and obligations of the Collateral Manager thereunder and under the applicable terms of the Indenture; (ii) will not cause either of the Co-Issuers or the pool of Collateral to become required to register under the provisions of the Investment Company Act; and (iii) the Rating Condition has been satisfied with respect to the appointment of such Replacement Manager.

No compensation payable to a Replacement Manager from payments on the Collateral will be greater than that which would have been paid to the Collateral Manager under the Collateral Management Agreement unless a majority, by aggregate outstanding principal amount, of holders of the Notes consent to such compensation (Notes owned by, or subject to the discretionary authority of, the Collateral Manager or any Affiliate thereof will be disregarded and deemed not to be outstanding for this purpose). Upon expiration of the applicable notice period with respect to termination specified in the Collateral Management Agreement, all authority and power of the Collateral Manager under the Collateral Management Agreement, whether with respect to the Collateral Debt Securities or otherwise, will automatically and without further action by any person or entity pass to and be vested in the Replacement Manager. Notwithstanding the foregoing, the outgoing collateral manager shall be entitled to any accrued and unpaid Collateral Management Fee earned by it prior to termination or resignation.

For so long as Declaration is the Collateral Manager, if any three of (w) Michael E. Stern, (x) James E. Shallcross, (y) William P. Callan and (z) Wade M. Walters (i) cease to be, for any reason, employees of the Collateral Manager who are actively involved in the management of Collateral Debt Securities or (ii) are not responsible for supervising a management-level or professional-level employee of the Collateral Manager who is responsible for the day-to-day management of the Collateral Debt Securities, Declaration (or any successor) shall, not later than 60 days after the earlier of any such termination or resignation or of its receipt of notice of any such resignation that would result in the foregoing, propose (by notice to the Issuer and the Trustee) a replacement officer or officers to assume the duties described in clause (i) or (ii) (each, a "Replacement Officer"), with respect to the appointment of whom the Rating Condition has been satisfied. The appointment of any Replacement Officer will be rejected if holders of at least 75% of the aggregate outstanding principal amount of all of the Notes or a Special-Majority-in-Interest of Preference Shareholders (in each case, excluding any Notes and Preference Shares held by the Collateral Manager or its Affiliates and accounts for which the Collateral Manager or its Affiliates acts as investment adviser (and for which the Collateral Manager or any such Affiliate has discretionary authority)) within 30 days after notice of a proposed Replacement Officer is delivered to such holders (the "First Period"), provide notice to the Trustee of objection to any such Replacement Officer. In the event that the Replacement Officer or Replacement Officers are rejected within the First Period, the holders of at least 66-2/3% of the aggregate outstanding principal amount of all the Notes and a Special-Majority-in-Interest of Preference Shareholders (in each case, excluding any Notes and Preference Shares held by the Collateral Manager or its Affiliates and accounts for which the Collateral Manager or its Affiliates acts as investment adviser (and for which the Collateral Manager or any such Affiliate has discretionary authority)) may appoint and approve a Replacement Manager within 60 days after the termination of the First Period (the "Second Period"), in accordance with voting procedures set forth in the Indenture. In the event that a Replacement Manager is not approved before the conclusion of the Second Period, the Collateral Manager may, but shall not be required to, appoint a Replacement Manager. No such appointment of a Replacement Manager shall be effective unless such Replacement Manager shall have agreed in writing to assume all of the Collateral Manager's duties and obligations under the Collateral Management Agreement

and shall meet the other requirements of a Replacement Manager set forth in the preceding paragraph.

Pursuant to the Indenture, the Trustee is entitled to exercise the rights and remedies of the Issuer under the Collateral Management Agreement (a) upon the occurrence of an Event of Default until such time, if any, as such Event of Default is cured or waived, (b) upon the occurrence of an event specified in the Collateral Management Agreement pursuant to which the Issuer is entitled to remove the Collateral Manager for "cause" or (c) upon a default in the performance, or breach, of any covenant, representation, warranty or other agreement of the Collateral Manager under the Collateral Management Agreement or in any certificate or writing delivered pursuant thereto if (i) holders of at least 25% in aggregate outstanding principal amount of the Notes of any Class (Notes owned by, or subject to the discretionary voting authority of, the Collateral Manager or any Affiliate thereof will be disregarded and deemed to be not outstanding for this purpose) give notice of such default or breach to the Trustee and the Collateral Manager and (ii) such default or breach (if remediable) continues for a period of 30 days.

Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager and its Affiliates. In certain circumstances, the interests of the Issuer or the holders of the Offered Securities with respect to matters as to which the Collateral Manager is advising the Issuer may conflict with the interests of the Collateral Manager or its Affiliates. See "Risk Factors—Certain Conflicts of Interest".

The Collateral Manager will be deemed to have satisfied certain requirements in the definition of Collateral Debt Security if the Collateral Manager acquires securities only in compliance with restrictions contained in the Collateral Management Agreement. For a description of these requirements, see "Security for the Notes—Reinvestment Criteria".

INCOME TAX CONSIDERATIONS

The following is a summary based on present law of certain Cayman Islands and U.S. Federal income tax considerations for prospective purchasers of the Notes or the Preference Shares. It addresses only purchasers that buy in the original offering at the original offering price, hold the Notes or the Preference Shares as capital assets and use the U.S. dollar as their functional currency. The discussion does not consider the circumstances of particular purchasers, some of which (such as banks, insurance companies, securities traders and dealers, tax-exempt organizations or persons holding the Notes or the Preference Shares as part of a hedge, straddle, conversion, integrated or constructive sale transaction) are subject to special tax regimes. The discussion is a general summary only; it is not a substitute for tax advice. **EACH PROSPECTIVE PURCHASER SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES OR THE PREFERENCE SHARES UNDER THE LAWS OF THE CAYMAN ISLANDS, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTIONS WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.**

For purposes of this discussion, a "Holder" is a beneficial owner of a Note or a Preference Share. A "U.S. Holder" is a Holder that is, for U.S. Federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation, partnership or other business entity organized in or under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of a U.S. Person and the primary supervision of a U.S. court or (iv) an estate the income of which is subject to U.S. Federal income taxation regardless of its source. A "Non-U.S. Holder" is any Holder other than a U.S. Holder.

Taxation of the Issuer

Cayman Islands Taxation.

The Issuer will not be subject to income, capital, transfer, sales or corporation tax in the Cayman Islands. The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company, and it, as such, has received from the Governor in Council of the Cayman Islands an Undertaking as to Tax Concessions pursuant to Section 6 of the Tax Concessions Law (1999 Revision) providing that, for a period of 30 years from the date of such Undertaking, no law subsequently enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations will apply to the Issuer or its operations.

U.S. Taxation.

The Issuer will be treated as a corporation for U.S. Federal income tax purposes. The Issuer intends and expects to conduct its affairs so that it will not be engaged in a trade or business within the United States. As long as the Issuer is not engaged in a U.S. trade or business, the Issuer will not be subject to U.S. Federal income tax on its net income. There can be no assurance, however, that the Issuer's income will not become subject to net income taxes in the United States or in other countries as the result of changes in law, contrary conclusions by relevant tax authorities, ownership by the Issuer of equity securities or other causes. If the Issuer were found to be engaged in a U.S. trade or business, it could be subject to substantial U.S. income taxes, the imposition of which could materially impair its ability to pay principal of

and interest on the Notes and dividends and return of capital in respect of the Preference Shares.

The Issuer expects that substantially all of its income and gain from the Collateral Debt Securities, Eligible Investments, U.S. Agency Securities and the Hedge Agreement will be exempt from U.S. withholding taxes and withholding taxes imposed by other countries from which such payments are sourced. There can be no assurance, however, that the Issuer's income will not become subject to withholding taxes in the United States or other countries as the result of unanticipated activities by the Issuer, changes in law, contrary conclusions by relevant tax authorities or other causes. Income from Equity Securities is likely to be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. The extent to which United States or other source country withholding taxes may apply to the Issuer's income will depend upon the actual composition of its assets. The imposition of unanticipated withholding taxes could materially impair the Issuer's ability to pay principal, interest and other amounts on the Notes and to make distributions on the Preference Shares.

Taxation of the Holders

Cayman Islands Taxation.

No Cayman Islands withholding tax applies to payments on the Notes or distributions on the Preference Shares. Holders are not subject to any income, capital, transfer, sales or other taxes in the Cayman Islands in respect of their purchase, holding or disposition of the Notes (except that (a) each Class of Notes will be subject to a fixed stamp duty of CI\$500 and (b) an instrument transferring title to a Note, if brought to or executed in the Cayman Islands, will be subject to nominal Cayman Islands stamp duty).

U.S. Taxation of Notes.

Freshfields Bruckhaus Deringer LLP, special U.S. Federal income tax counsel to the Issuer, believes that the Class A-1 Notes, the Class A-2 Notes and the Class B Notes will and that the Class C Notes should be treated as debt for U.S. Federal income tax purposes. The Indenture provides that each Holder agrees to treat the Notes as debt for such purposes, and the following discussion assumes that the Notes will be debt.

U.S. Holders. Interest on the Notes will be includible in the gross income of a U.S. Holder in accordance with its regular method of accounting. Interest on the Notes will accrue at a hypothetical fixed rate equal to the level of the floating rate at which the Note bore interest on its issue date. The amount of interest actually recognized for any accrual period will, however, be increased (or decreased) if the interest actually paid during the period is more (or less) than the amount assumed to be paid at the hypothetical fixed rate. U.S. Holders therefore generally will recognize income for each period equal to the amount paid during that period. Interest on a Note will be ordinary income. Assuming the Issuer is not engaged in a U.S. trade or business, the interest will be from sources outside the United States.

If there were more than a remote likelihood that the Issuer would defer interest payments on the Class C Notes, all interest payable on such Notes (including interest on accrued but unpaid interest) would be treated as original issue discount ("OID"). A U.S. Holder must include OID in ordinary income on a constant yield to maturity basis whether or not it receives a cash payment on any payment date. The Issuer believes that the likelihood of interest being deferred

is for this purpose remote. However, if the Issuer defers an interest payment on a Class C Note, the Holder thereafter must accrue OID on the principal of, and any accrued OID on, such Note.

A U.S. Holder will generally recognize gain or loss on the redemption or disposition of a Note in an amount equal to the difference between the amount realized (other than accrued but unpaid interest) and the U.S. Holder's adjusted tax basis in the Note. The gain or loss generally will be capital gain or loss and generally will be from sources within the United States. If a U.S. Holder's basis in a Note includes accrued but unpaid OID, the holder may be required specifically to disclose any loss on its tax return under recent regulations on corporate tax shelter transactions.

Non-U.S. Holders. Interest paid to a Non-U.S. Holder will not be subject to U.S. withholding tax as long as the Issuer is not engaged in a U.S. trade or business. If the Issuer were engaged in a U.S. trade or business, interest paid to many Non-U.S. Holders would qualify for an exemption from withholding tax if the holders certify their foreign status. Interest paid to a Non-U.S. Holder also will not be subject to U.S. net income tax unless the interest is effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States. A Non-U.S. Holder realizing gain on the redemption or disposition of a Note will not be subject to U.S. tax unless (i) the gain is effectively connected with the Holder's conduct of a U.S. trade or business or (ii) the Holder is an individual present in the United States for at least 183 days during the taxable year of disposition and certain other conditions are met.

Alternative Treatment. The U.S. Internal Revenue Service may challenge the treatment of the Notes, particularly the Class C Notes, as debt of the Issuer. If the challenge succeeded, a U.S. Holder of the affected Notes would be treated like a holder of Preference Shares that had not elected to treat the Issuer as a qualified electing fund, as described below. A U.S. Holder that has treated the Notes as debt for book accounting purposes also might be required specifically to disclose items arising from the Notes on its tax return under recent corporate tax shelter regulations, which require disclosure of certain types of transactions even if they were not undertaken for tax reasons.

U.S. Taxation of Preference Shares.

U.S. Holders. Subject to the passive foreign investment company rules, the controlled foreign corporation rules and the foreign personal holding company rules discussed below, a U.S. Holder generally must treat distributions received with respect to the Preference Shares as dividend income. Dividends will not be eligible for the dividends-received deduction allowable to corporations or for the preferential capital gain tax rate applicable to the dividend income of individuals. For purposes of determining a U.S. Holder's foreign tax credit limitation, dividends received from a foreign corporation generally are treated as income from sources outside the United States. If U.S. Holders together hold at least half by vote or value of the Preference Shares and other interests treated as equity in the Issuer, however, a percentage of the dividend income equal to the proportion of the Issuer's income that comes from U.S. sources will be treated as income from sources within the United States. Except as otherwise required by the rules discussed below, gain or loss on the sale or other disposition of the Preference Shares will be capital gain or loss. Gain and loss realized by a U.S. Holder generally will be from U.S. sources.

Passive Foreign Investment Company. The Issuer will be a passive foreign investment company (a "PFIC"). A U.S. Holder therefore will be subject to additional tax on excess

distributions received on the Preference Shares or gains realized on the disposition of the Preference Shares. A U.S. Holder will have an excess distribution if distributions received on the Preference Shares during any tax year exceed 125% of the average amount received during the three preceding tax years (or, if shorter, the U.S. Holder's holding period). A U.S. Holder may realize gain for this purpose not only through a sale or other disposition, but also by pledging the Preference Shares as security for a loan or entering into certain constructive disposition transactions. To compute the tax on an excess distribution or any gain, (i) the excess distribution or gain is allocated ratably over the U.S. Holder's holding period, (ii) the amount allocated to the current tax year is taxed as ordinary income and (iii) the amount allocated to each previous tax year is taxed at the highest applicable marginal rate for that year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax. These rules effectively prevent a U.S. Holder from treating gain on the Preference Shares as capital gain.

A U.S. Holder of Preference Shares may wish to avoid the tax consequences just described by electing to treat the Issuer as a qualified electing fund ("QEF"). If the U.S. Holder makes a QEF election, the U.S. Holder will be required to include in gross income each year, (i) as ordinary income, its *pro rata* share of the Issuer's earnings and profits in excess of net capital gains, in each case, whether or not the Issuer actually makes a distribution and (ii) as long-term capital gains, its *pro rata* share of the Issuer's net capital gains. Amounts recognized by a U.S. Holder making a QEF election generally are treated as income from sources outside the United States. If U.S. Holders together hold at least half (by vote or value) of the Preference Shares and other interests treated as equity in the Issuer, however, a percentage of those amounts equal to the proportion of the Issuer's income that comes from U.S. sources will be treated as income from sources within the United States. Because the U.S. Holder has already paid tax on them, the amounts previously included in income will not be subject to tax when they are distributed to the U.S. Holder. An electing U.S. Holder's basis in the Preference Shares will increase by any amounts the holder includes in income currently and decrease by any amounts not subject to tax when distributed. The Issuer will provide Preference Shareholders with the information needed to make a QEF election.

A U.S. Holder that makes a QEF election may recognize income in amounts significantly greater than the distributions it receives from the Issuer. Income may exceed distributions when, for example, the Issuer uses earnings to repay principal on the Notes or accrues original issue discount or market discount on Collateral Debt Securities. A U.S. Holder that makes a QEF election will be required to include in income currently its *pro rata* share of the Issuer's earnings whether or not the Issuer actually makes distributions. The holder may be able to elect to defer payment, subject to an interest charge for the deferral period, of the tax on income recognized on account of the QEF election. Prospective purchasers should consult their tax advisors about the advisability of making the QEF and deferred payment elections.

The Issuer also may be a controlled foreign corporation (a "CFC") if U.S. Holders that each own (directly, indirectly or by attribution) at least 10% of the Preference Shares and any other interests treated as voting equity in the Issuer together own more than 50% (by vote or value) of the Preference Shares and any other interests treated as equity in the Issuer. If the Issuer is a CFC, a U.S. Holder that owns (or is deemed to own) at least 10% of the voting equity of the Issuer on the last day of the Issuer's taxable year must recognize ordinary income equal to its *pro rata* share of the Issuer's earnings (including both ordinary earnings and capital gains) for the tax year whether or not the Issuer makes a distribution. The income will be treated as income from sources within the United States to the extent it is derived by the Issuer from U.S. sources. Earnings on which the U.S. Holder pays tax currently will not be taxed again when

they are distributed to the U.S. Holder. If a U.S. Holder owns (or is deemed to own) at least 10% of the voting equity in the Issuer, its basis in its interest in the Issuer will increase by any amounts the holder includes in income currently and decrease by any amounts not subject to tax when distributed. If the Issuer is a CFC, (i) the Issuer would incur U.S. withholding tax on interest received from a related U.S. person, (ii) special reporting rules would apply to directors of the Issuer and certain other persons and (iii) certain other restrictions may apply. Subject to a special limitation for individual U.S. Holders that have held the Preference Shares for more than one year, gain from disposition of Preference Shares recognized by a U.S. Holder that is or recently has been a 10% U.S. Shareholder will be treated as dividend income to the extent earnings attributable to the Preference Shares accumulated while the U.S. Holder held the Preference Shares and the Issuer was a CFC.

Foreign Personal Holding Company. The Issuer will be a foreign personal holding company (a "FPHC") if five or fewer U.S. citizens or resident individuals own (directly, indirectly or by attribution) more than 50% (by vote or value) of the Preference Shares and any other interests treated as equity in the Issuer. If the Issuer is an FPHC, a U.S. Holder generally will be required to include in income constructive dividends equal to its share of the Issuer's specially adjusted taxable income whether or not the Issuer distributes the income. The constructive dividends would be treated as income from U.S. sources in proportion to the income that the Issuer receives from U.S. sources. A U.S. Holder's basis in its equity in the Issuer would increase by any amounts the holder includes in income currently as described above.

The relationship among the PFIC, CFC and FPHC rules and the possible consequences of those rules for a particular U.S. Holder depend upon the circumstances of the Issuer and the U.S. Holder. If the Issuer is a CFC, a U.S. Holder that owns (or is deemed to own) at least 10% of the voting equity of the Issuer will be subject to the CFC rules and not the PFIC rules. If the Issuer is both a CFC and an FPHC, a U.S. Holder of less than 10% of the voting equity in the Issuer will be subject to the FPHC rules, and, with respect to any distributions or gains not taxed under the FPHC rules, the PFIC rules, while a U.S. Holder of 10% or more of the voting equity in the Issuer will be subject to the CFC rules. If the Issuer is an FPHC but not a CFC, any U.S. Holder of a Preference Share will be subject to the FPHC rules and, with respect to any distributions or gains not taxed under the FPHC rules, to the PFIC rules. Each prospective purchaser should consult its tax advisor about the application of the PFIC, CFC and FPHC rules to its particular situation.

U.S. Holders generally must report, with their tax return for the tax year that includes the Closing Date, certain information relating to their purchase of the Preference Shares. A U.S. Holder also may be required to disclose a loss on the Preference Shares that exceeds specific thresholds on its tax return under recent regulations on corporate tax shelter transactions. When the Issuer is an FPHC or the U.S. Holder holds 10% of the shares in a CFC or a QEF, the holder also must disclose any Issuer transactions reportable under those regulations, which require disclosure of certain types of transactions whether or not they were undertaken for tax reasons. U.S. Holders are urged to consult their tax advisors about these and all other specific reporting requirements.

Non-U.S. Holders. Distributions by the Issuer to a Non-U.S. Holder on Preference Shares will not be subject to U.S. withholding tax. A Non-U.S. Holder receiving distributions also will not be subject to U.S. Federal tax on a net income basis unless the distributions are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States. Gain realized by a Non-U.S. Holder on the sale or other disposition of the

Preference Shares will not be subject to U.S. tax unless (i) the gain is effectively connected with the holder's conduct of a U.S. trade or business or (ii) the holder is an individual present in the United States for at least 183 days during the taxable year of disposition and certain other conditions are met.

U.S. Information Reporting and Backup Withholding.

Payments of principal and interest on the Notes, distributions on the Preference Shares and proceeds from the disposition of the Notes or Preference Shares paid to a non-corporate Holder generally will be subject to U.S. information reporting. Payments to Non-U.S. Holders that provide certification of foreign status generally are exempt from information reporting. Backup withholding tax may apply to reportable payments unless the Holder provides a correct taxpayer identification number or otherwise establishes an exemption. Any amount withheld may be credited against a Holder's U.S. Federal income tax liability or refunded to the extent it exceeds the Holder's liability.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES OR THE PREFERENCE SHARES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("ERISA") imposes certain duties on persons who are fiduciaries of employee benefit plans (as defined in Section 3(3) of ERISA) ("ERISA Plans") and of entities whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entities. These duties include investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and liquidity needs and all of the facts and circumstances of the investment, including the availability of a public market for the investment. In addition, certain U.S. Federal, state and local laws impose similar duties on fiduciaries of governmental and/or church plans which are not subject to ERISA.

Any fiduciary of an ERISA Plan, of an entity whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entity, or of a governmental or church plan that is subject to fiduciary standards similar to those of ERISA ("plan fiduciary"), that proposes to cause such a plan or entity to purchase Offered Securities should determine whether, under the general fiduciary standards of ERISA or other applicable law, an investment in the Offered Securities is appropriate for such plan or entity. In determining whether a particular investment is appropriate for an ERISA Plan, U.S. Department of Labor regulations provide that the fiduciaries of an ERISA Plan must give appropriate consideration to, among other things, the role that the investment plays in the ERISA Plan's portfolio, taking into consideration whether the investment is designed reasonably to further the ERISA Plan's purposes, an examination of the risk and return factors, the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the ERISA Plan and the projected return of the total portfolio relative to the ERISA Plan's funding objectives. Before investing the assets of an ERISA Plan in Offered Securities, a fiduciary should determine whether such an investment is consistent with the foregoing regulations and its fiduciary responsibilities, including any specific restrictions to which such fiduciary may be subject.

Section 406(a) of ERISA and/or Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "Code") prohibit certain transactions ("prohibited transactions") involving the assets of ERISA Plans or plans described in Section 4975(e)(1) of the Code (together with ERISA Plans, "Plans") and certain persons (referred to as "Parties-In-Interest" in ERISA and as "disqualified persons" in Section 4975 of the Code) having certain relationships to such plans and entities. A Party-In-Interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to non-deductible excise taxes and other penalties and liabilities under ERISA and/or the Code.

Each of the Issuer, the Co-Issuer, the Initial Purchaser and the Collateral Manager as a result of its own activities or because of the activities of an affiliate, may be considered a Party-In-Interest or a disqualified person with respect to Plans. Accordingly, prohibited transactions within the meaning of Section 406 of ERISA and Section 4975 of the Code may arise if Notes are acquired by a Plan with respect to which any of the Issuer, the Co-Issuer, the Initial Purchaser, the Collateral Manager, the obligors on the Collateral Debt Securities or any of their respective affiliates is a Party-In-Interest or disqualified person. In addition, if a Party-In-Interest or disqualified person with respect to a Plan owns or acquires a beneficial interest in the Issuer or the Co-Issuer, the acquisition or holding of Notes by or on behalf of the Plan could be

considered to constitute an indirect prohibited transaction. Moreover, the acquisition or holding of Notes or other indebtedness issued by the Issuer or the Co-Issuer by or on behalf of a Party-In-Interest or disqualified person with respect to a Plan that owns or acquires a beneficial interest in the Issuer or the Co-Issuer, as the case may be, also could give rise to an indirect prohibited transaction. Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are PTE 90-1, regarding investments by insurance company pooled separate accounts; PTE 91-38, regarding investments by bank collective investment funds; PTE 84-14, regarding transactions effected by a "qualified professional asset manager"; PTE 96-23, regarding investments by certain in-house asset managers; and PTE 95-60, regarding investments by insurance company general accounts. Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. If a purchase of Notes were to be a non-exempt prohibited transaction, the purchase might have to be rescinded.

Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to local, state or other Federal laws that are similar to the foregoing provisions of ERISA and the Code (a "Similar Law").

The United States Department of Labor, the government agency primarily responsible for administering the ERISA fiduciary rules and the prohibited transaction rules under ERISA and the Code, has issued a regulation (the "Plan Asset Regulation") that, under specified circumstances, requires plan fiduciaries, and entities with certain specified relationships to a Plan, to "look through" investment vehicles (such as the Issuer) and treat as an "asset" of the Plan each underlying investment made by such investment vehicle. The Plan Asset Regulation provides, however, that if equity participation in any entity by "Benefit Plan Investors" is not significant then the "look-through" rule will not apply to such entity. "Benefit Plan Investors" are defined in the Plan Asset Regulation to include (1) any employee benefit plan (as defined in Section 3(3) of ERISA), whether or not subject to Title I of ERISA, (2) any plan described in Section 4975(e)(1) of the Code, and (3) any entity whose underlying assets include plan assets by reason of a plan's investment in the entity. Equity participation by Benefit Plan Investors in an entity is significant if, immediately after the most recent acquisition of any equity interest in the entity, 25% or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, exercising control over the assets of the entity or providing investment advice with respect to such assets for a fee, direct or indirect (such as the Collateral Manager), or any affiliates of such persons (any such person, a "Controlling Person")) is held by Benefit Plan Investors (the "25% Threshold").

There is little pertinent authority in this area. However, it is not anticipated that the Class A-1 Notes, Class A-2 Notes, and Class B Notes will constitute "equity interests" in the Co-Issuers. Based primarily on the investment-grade rating of the Class C Notes, the unconditional obligation of the Co-Issuers to pay interest and to repay principal by a fixed maturity date and the creditors' remedies available to holders of the Class C Notes, it is anticipated that the Class C Notes will not constitute "equity interests" in the Co-Issuers, despite their subordinated position in the capital structure of the Co-Issuers. No measures (such as those described below with respect to the Preference Shares) will be taken to restrict investment in the Class C Notes by Benefit Plan Investors.

The Preference Shares will likely constitute "equity interests" in the Issuer.

It is intended that the ownership interests in the Preference Shares that are held by Benefit Plan Investors will be maintained at a level below the 25% Threshold (excluding Preference Shares held by Controlling Persons) by limiting the aggregate amount of Preference Shares that may be held by Benefit Plan Investors to below the 25% Threshold. In order to achieve this result, each Original Purchaser and each subsequent transferee of Regulation S Preference Shares will be required to represent and warrant that it is not (and for so long as it holds such Regulation S Preference Share will not be) and is not acting on behalf of (and for so long as it holds such Regulation S Preference Share will not be acting on behalf of) a Benefit Plan Investor or a Controlling Person. Each Original Purchaser of Preference Shares will be required to provide information in the Subscription Agreement pursuant to which such Preference Shares were purchased as to what portion, if any, of the funds it is using to purchase and hold Preference Shares is comprised of assets of a Benefit Plan Investor and whether or not it is a Controlling Person. Any subsequent transferee that acquires Preference Shares (or any interest therein) will be deemed to represent and warrant that it is not (and for so long as it holds such Preference Share or interest therein will not be) and is not acting on behalf of (and for so long as it holds such Preference Share or interest therein will not be acting on behalf of) a Benefit Plan Investor or a Controlling Person. No initial purchase of a Regulation S Preference Share by, or subsequent transfer to, a person that has represented that it is (or is using the assets of) a Benefit Plan Investor or a Controlling Person will be permitted. Moreover, no Original Purchaser will be permitted to purchase Restricted Preference Shares, and the Preference Share Registrar will not register any such purchase, to the extent that it is determined that such purchase would result in persons that have represented in writing to the Issuer that they are Benefit Plan Investors owning 25% or more of all Preference Shares immediately after such proposed purchase, excluding Preference Shares held by Controlling Persons. There can be no assurance, however, that ownership of the Preference Shares by Benefit Plan Investors will always remain below the 25% Threshold.

If for any reason the assets of either of the Co-Issuers are deemed to be "plan assets" of a Plan subject to ERISA or Section 4975 of the Code because one or more of such Plans is an owner of Preference Shares, certain transactions that either of the Co-Issuers might enter into, or may have entered into, in the ordinary course of its business might constitute non-exempt "prohibited transactions" under Section 406 of ERISA or Section 4975 of the Code and might have to be rescinded. In addition, if the assets of either of the Co-Issuers are deemed to be "plan assets" of a Plan subject to Title I of ERISA or Section 4975 of the Code, the payment of certain of the fees payable to the Collateral Manager might be considered to be a non-exempt "prohibited transaction" under Section 406 of ERISA or Section 4975 of the Code. Moreover, if the underlying assets of either of the Co-Issuers were deemed to be assets constituting "plan assets", there are several provisions of ERISA that could be implicated if an ERISA Plan were to acquire and hold Preference Shares either directly or by investing in an entity whose underlying assets are deemed to be assets of the ERISA Plan. It is also not clear whether (i) the assets of the Issuer could be subject to ERISA's reporting and disclosure requirements, (ii) a fiduciary causing a Benefit Plan Investor to make an investment in the equity of the Issuer could be deemed to have delegated its responsibility to manage the assets of the Benefit Plan Investor, (iii) various providers of fiduciary or other services to the Issuer, and any other parties with authority or control with respect to the Issuer, could be deemed to be Plan fiduciaries or otherwise Parties-in-Interest or Disqualified persons by virtue of their provision of such services, and (iv) it is not clear that Section 404(b) of ERISA, which generally prohibits plan fiduciaries from maintaining the indicia of ownership of assets of plans subject to Title I of ERISA outside the jurisdiction of the district courts of the United States, would be satisfied in all instances.

The sale of any Offered Security to a Plan is in no respect a representation by the Issuer, the Initial Purchaser, the Collateral Manager or any of their affiliates that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for a Plan generally or any particular Plan.

EACH ORIGINAL PURCHASER AND EACH SUBSEQUENT TRANSFEREE OF A NOTE OR REGULATION S PREFERENCE SHARE, AND EACH TRANSFEREE OF A RESTRICTED PREFERENCE SHARE (OTHER THAN THE INITIAL PURCHASER THEREOF) WILL BE DEEMED TO REPRESENT AND WARRANT, AND EACH ORIGINAL PURCHASER OF A RESTRICTED PREFERENCE SHARE WILL BE REQUIRED TO CERTIFY, THAT EITHER (A) IT IS NOT, AND, FOR SO LONG AS IT HOLDS SUCH NOTES OR PREFERENCE SHARES, AS THE CASE MAY BE, WILL NOT BE AND IS NOT ACTING ON BEHALF OF AND, FOR SO LONG AS IT HOLDS SUCH OFFERED SECURITY, WILL NOT BE ACTING ON BEHALF OF, (I) A PLAN, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR (II) ANOTHER "BENEFIT PLAN INVESTOR", AS DEFINED IN UNITED STATES DEPARTMENT OF LABOR REGULATIONS AT 29 C.F.R. §2510.3-101(f) OR (B) ITS PURCHASE AND OWNERSHIP OF NOTES OR PREFERENCE SHARES, AS THE CASE MAY BE, WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A VIOLATION OF ANY MATERIALLY SIMILAR FEDERAL, STATE OR LOCAL LAW).

EACH ORIGINAL PURCHASER OF REGULATIONS PREFERENCE SHARES AND EACH SUBSEQUENT TRANSFEREE OF ANY PREFERENCE SHARES WILL BE DEEMED TO REPRESENT AND WARRANT THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS SUCH PREFERENCE SHARES WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS SUCH REGULATION S PREFERENCE SHARES WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON.

EACH ORIGINAL PURCHASER OF RESTRICTED PREFERENCE SHARES WILL BE REQUIRED TO CERTIFY WHETHER THE PURCHASER IS, OR IS ACTING ON BEHALF OF, (I) A "BENEFIT PLAN INVESTOR", AS DEFINED IN UNITED STATES DEPARTMENT OF LABOR REGULATIONS AT 29 C.F.R. §2510.3-101(f), INCLUDING (1) ANY EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF ERISA), WHETHER OR NOT IT IS SUBJECT TO TITLE I OF ERISA, (2) ANY PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE CODE AND (3) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF A PLAN'S INVESTMENT IN THE ENTITY OR (II) A PERSON WHO EXERCISES CONTROL OVER THE ASSETS OF THE ISSUER (SUCH AS THE COLLATERAL MANAGER) OR PROVIDES INVESTMENT ADVICE TO THE ISSUER FOR A FEE OR IS AN AFFILIATE OF ANY SUCH PERSON.

ANY PLAN FIDUCIARY THAT PROPOSES TO CAUSE A PLAN TO PURCHASE OFFERED SECURITIES, SHOULD CONSULT WITH ITS OWN LEGAL AND TAX ADVISORS WITH RESPECT TO THE POTENTIAL APPLICABILITY OF ERISA AND THE CODE TO SUCH INVESTMENTS, THE CONSEQUENCES OF SUCH AN INVESTMENT UNDER ERISA AND THE CODE AND THE ABILITY TO MAKE THE REPRESENTATIONS DESCRIBED ABOVE. MOREOVER, EACH PLAN FIDUCIARY SHOULD DETERMINE WHETHER, UNDER THE GENERAL FIDUCIARY STANDARDS OF ERISA, AN INVESTMENT IN THE OFFERED

SECURITIES IS APPROPRIATE FOR THE PLAN, TAKING INTO ACCOUNT THE OVERALL INVESTMENT POLICY OF THE PLAN AND THE COMPOSITION OF THE PLAN'S INVESTMENT PORTFOLIO. NO TRANSFER OF A PREFERENCE SHARE TO ANY CONTROLLING PERSON THEREOF WILL BE EFFECTIVE, AND NEITHER THE ISSUER, THE PREFERENCE SHARE REGISTRAR NOR THE PREFERENCE SHARE PAYING AGENT WILL RECOGNIZE ANY SUCH TRANSFER.

It should be noted that an insurance company's general account may be deemed to include assets of ERISA Plans under certain circumstances, e.g., where an ERISA Plan purchases an annuity contract issued by such an insurance company, based on the reasoning of the United States Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993). An insurance company considering the purchase of Offered Securities with assets of its general account should consider such purchase and the insurance company's ability to make the representations described above in light of *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, Section 401(c) of ERISA and 29 C.F.R. §2550.401c-1.

The discussion of ERISA and Section 4975 of the Code contained in this Offering Circular, is, of necessity, general, and does not purport to be complete. Moreover, the provisions of ERISA and Section 4975 of the Code are subject to extensive and continuing administrative and judicial interpretation and review. Therefore, the matters discussed above may be affected by future regulations, rulings and court decisions, some of which may have retroactive application and effect.

PLAN OF DISTRIBUTION

The Co-Issuers and the Initial Purchaser have entered into a Securities Purchase Agreement (the "Securities Purchase Agreement"), relating to the offering and sale of the Offered Securities to be delivered on the Closing Date. In the Securities Purchase Agreement, the Co-Issuers (or the Issuer, in relation to the purchase of Preference Shares under the Securities Purchase Agreement) have agreed to sell to the Initial Purchaser, and the Initial Purchaser has agreed to purchase, the entire principal amount of the Notes and all of the Preference Shares as set forth in the Securities Purchase Agreement, and to privately place the entire principal amount of the Notes and Preference Shares with eligible investors. The obligations of the Initial Purchaser under the Securities Purchase Agreement are subject to the satisfaction of certain conditions set forth in the Securities Purchase Agreement. Pursuant to the Securities Purchase Agreement, each of the Co-Issuers has agreed to indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchaser may be required to make in respect thereof.

Each Original Purchaser of a Preference Share will be required to execute and deliver a Subscription Agreement in form and substance satisfactory to the Initial Purchaser and the Issuer.

The Co-Issuers have been advised by the Initial Purchaser that the Initial Purchaser proposes to sell the Offered Securities (a) in the case of a sale in the United States in reliance upon an exemption from the registration requirements of the Securities Act, to (i) "qualified institutional buyers" as defined in Rule 144A under the Securities Act ("Qualified Institutional Buyers") and (ii) solely in the case of the Restricted Preference Shares, a limited number of "accredited investors" within the meaning of Rule 501(a) of the Securities Act ("Accredited Investors") that, in each case, are Qualified Purchasers and (b) to certain persons who are not U.S. Persons in offshore transactions in reliance on Regulation S under the Securities Act.

United States

The Offered Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except pursuant to an exemption from the registration requirements under the Securities Act provided by Section 4(2) or Rule 144A.

(1) In the Securities Purchase Agreement, the Initial Purchaser will represent and agree that it has not offered or sold Offered Securities and will not offer or sell Offered Securities, except to non-U.S. Persons in accordance with Rule 903 of Regulation S or as provided in paragraph (2) below. Accordingly, the Initial Purchaser will represent and agree that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to Offered Securities, and it has complied and will comply with the offering restrictions requirements of Regulation S.

(2) In the Securities Purchase Agreement, the Initial Purchaser will agree that it will not, acting either as principal or agent, offer or sell any Offered Securities in the United States other than Offered Securities in registered form bearing a restrictive legend thereon, and it will not, acting either as principal or agent, offer, sell, reoffer or resell any of such Offered Securities (or approve the resale of any of such Offered Securities):

- (a) except (1) inside the United States through a U.S. broker dealer that is registered under the Exchange Act to investors each of which (x) the Initial Purchaser reasonably believes is a Qualified Institutional Buyer or (y) in the case of the Restricted Preference Shares, is an Accredited Investor that has such knowledge and experience in financial and business matters that it is capable of evaluating and bearing the risks of investing in the Offered Securities or is represented by a fiduciary or agent with sole investment discretion having such knowledge and experience that is also a Qualified Purchaser or (2) otherwise in accordance with the restrictions on transfer set forth in such Offered Securities, the Securities Purchase Agreement and this Offering Circular and, with respect to the Class A-2A Notes, the Class A-2A Notes Supplement; or
- (b) by means of any form of general solicitation or general advertisement, including but not limited to (1) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio and (2) any seminar or meeting whose attendees have been advised by any general solicitation or general advertising.

Prior to the sale of any Offered Securities in registered form bearing a restrictive legend thereon, the Initial Purchaser shall have provided each offeree that is a U.S. Person with a copy of the Offering Circular in the form the Issuer and the Initial Purchaser shall have agreed most recently shall be used for offers and sales in the United States (the initial such form being this Offering Circular).

(3) In the Securities Purchase Agreement, the Initial Purchaser will represent and agree that in connection with each sale of Restricted Preference Shares to an Accredited Investor it has taken or will take reasonable steps to ensure that the purchaser is aware that the Offered Securities have not been and will not be registered under the Securities Act and that transfers of Offered Securities are restricted as set forth herein.

United Kingdom

The Initial Purchaser will also represent and agree as follows:

(1) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date, will not offer or sell any Offered Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(2) 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) received by it in connection with the issue or sale of any Offered Securities in circumstances in which Section 21(1) of said Act does not apply to either of the Co-Issuers; and

(3) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Offered Securities in, from or otherwise involving the United Kingdom.

Cayman Islands

The Initial Purchaser will represent and agree that it has not made and will not make any invitation to the public in the Cayman Islands to subscribe for the Offered Securities.

Hong Kong

The Initial Purchaser will also represent and agree as follows:

(1) that it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, the Notes other than to persons whose ordinary business it is to buy or sell shares of debentures (whether as principal or agent) or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32) of Hong Kong; and

(2) unless it is a person permitted to do so under the securities laws of Hong Kong, it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purpose of issue, in Hong Kong, any advertisement, invitation or document relating to the Notes that is directed at, or the contents of which are likely to be accessed or ready by, the public in Hong Kong (except if permitted to do so under the Securities Laws of Hong Kong), other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or to be disposed of in Hong Kong only to "professional investors" within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) of Hong Kong and any rules made thereunder.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Offered Securities or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuer or the Offered Securities in any country or jurisdiction where action for that purpose is required. Accordingly, the Offered Securities may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Offered Securities may be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Purchasers of the Offered Securities 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 purchase price.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes or Preference Shares.

Investor Representations on Original Purchase. Each Original Purchaser of Notes will be deemed (and each Original Purchaser of Preference Shares, will be required in a Subscription Agreement) to acknowledge, represent to and agree with the Issuer or the Co-Issuers, as the case may be, and the Initial Purchaser as follows:

(1) *No Governmental Approval.* The purchaser understands that the Offered Securities have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular. The purchaser further understands that any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer.* Each purchaser of a Note (if required by the Indenture) and each purchaser of Preference Shares will, prior to any sale, pledge or other transfer by it of any Note or Preference Share (or any interest therein), obtain from the transferee and deliver to the Issuer or the Co-Issuers, as the case may be, and the Note Registrar (in the case of a Note) or the Preference Share Registrar (in the case of Preference Shares) a duly executed transferee certificate addressed to each of the Co-Issuers and the Trustee (in the case of a Note), the Issuer and the Preference Share Paying Agent (in the case of a Preference Share) and the Collateral Manager in the form of the relevant exhibit attached to the Indenture or the Preference Share Paying Agency Agreement and such other certificates and other information as the Issuer, the Collateral Manager, the Trustee or the Preference Share Registrar, as the case may be, may reasonably require to confirm that the proposed transfer substantially complies with the applicable transfer restrictions contained in this Offering Circular, the Indenture and the Preference Share Paying Agency Agreement. In addition, a transferee of a beneficial interest in a Class A-2A Note in the form of a Restricted Global Note will be required to comply with the certification requirements described in the Class A-2A Notes Supplement.

(3) *Minimum Denominations and Original Capital Contributions; Form of Notes and Preference Shares.* The purchaser agrees that no Note or Preference Share (or any interest therein) may be sold, pledged or otherwise transferred (i) in the case of a Note, in a denomination of less than the applicable minimum denomination set forth in the Indenture and described herein or (ii) in the case of Preference Share, if, after giving effect to such transfer, the transferee (or, if the transferor retains any Preference Shares, the transferor) would own less than 100 Preference Shares. In addition, the purchaser understands that Restricted Preference Shares will be issued in fully registered, definitive form without interest coupons and will be transferable only by delivery thereof.

(4) *Securities Law Limitations on Resale.* The purchaser understands that the Offered Securities have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons unless they are registered under the Securities Act or unless an exemption from registration is available.

Accordingly, the certificates representing the Offered Securities will bear a legend stating that the Offered Securities have not been registered under the Securities Act and setting forth certain of the restrictions on transfer of the Offered Securities described herein. The purchaser understands that neither the Issuer nor (in the case of the Notes) the Co-Issuer has any obligation to register any of the Offered Securities under the Securities Act or to comply with the requirements for any exemption from the registration requirements of the Securities Act (other than to supply information specified in Rule 144A(d)(4) of the Securities Act as required by the Indenture and the Preference Share Paying Agency Agreement).

(5) *Qualified Institutional Buyer, Institutional Accredited Investor or Non-U.S. Person Status; Investment Intent.* In the case of a purchaser who takes delivery of the Offered Securities in the form of a Restricted Note or takes delivery of Restricted Preference Shares (or an interest therein), it is (a) a Qualified Institutional Buyer or (b) in the case of the Preference Shares, an Accredited Investor in accordance with another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), in each case acquiring the Notes or Preference Shares for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A). In the case of a purchaser who takes delivery of Notes in the form of a beneficial interest in a Regulation S Note or takes delivery in the form of a beneficial interest in a Regulation S Preference Shares, (a) it is not a U.S. Person and is purchasing such beneficial interest for its own account and not for the account or benefit of a U.S. Person and (b) if in the future it decides to transfer such beneficial interest, it will transfer such interest only to a person that is not a U.S. Person in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Global Note (or beneficial interest therein) or a Restricted Preference Share.

(6) *Purchaser Sophistication; Non-Reliance; Suitability; Access to Information.* The purchaser (a) has such knowledge and experience in financial and business matters that the purchaser is capable of evaluating the merits and risks (including for tax, legal, regulatory, accounting and other financial purposes) of its prospective investment in the Offered Securities, (b) is financially able to bear such risk, (c) in making such investment is not relying on the advice or recommendations of any of the Initial Purchaser, the Issuer, the Co-Issuer or any of their respective affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in the Offered Securities is suitable and appropriate for it. The purchaser has received, and has had an adequate opportunity to review the contents of, this Offering Circular. The purchaser has had access to such financial and other information concerning the Co-Issuers, the Preference Shares and the Notes as it has deemed necessary to make its own independent decision to purchase Offered Securities, including the opportunity, at a reasonable time prior to its purchase of Offered Securities, to ask questions and receive answers concerning the Co-Issuers and the terms and conditions of the offering of the Offered Securities.

(7) *Certain Resale Limitations; Rule 144A.* No Note or Preference Shares (or any interest therein) may be offered, sold, pledged or otherwise transferred to (i) a transferee acquiring a Restricted Note or Restricted Preference Shares (or, in each

case, any interest therein) except (a) to a transferee (1) whom the seller reasonably believes is a Qualified Institutional Buyer or (2) solely in the case of the Restricted Preference Shares, that is an Institutional Accredited Investor in accordance with another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), in each case purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from the registration requirements of the Securities Act), (b) to a transferee that is a Qualified Purchaser, (c) to a transferee that is not a Benefit Plan Investor or Controlling Person, (d) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (e) if such transfer is made in compliance with the certification and other requirements set forth in the Indenture, the Issuer Charter or the Preference Share Paying Agency Agreement and (f) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (ii) a transferee acquiring an interest in a Regulation S Note or a Regulation S Preference Share except (a) to a transferee that is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 903 or Rule 904 of Regulation S, (b) to a transferee that is not a U.S. Person unless such transferee is a Qualified Purchaser, (c) to a transferee that is not a U.S. Person or a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (d) if such transfer is made in compliance with the certification and the other requirements set forth in the Indenture, the Issuer Charter or the Preference Share Paying Agency Agreement, as applicable (including the execution and delivery of a letter in the form attached as an exhibit to the Indenture or the Preference Share Paying Agency Agreement, as applicable, addressed to each of the Issuer, the Trustee or the Preference Share Paying Agent, as applicable, and the Collateral Manager) and (e) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(8) *Limited Liquidity.* The purchaser understands that there is no market for any Class of Notes or the Preference Shares and that no assurance can be given as to the liquidity of any trading market for any Class of Notes or the Preference Shares and that it is unlikely that a trading market for any Class of Notes or the Preference Shares will develop. The purchaser further understands that, although the Initial Purchaser may from time to time make a market in any Class of Notes or the Preference Shares, the Initial Purchaser is under no obligation to do so and, following the commencement of any market-making, may discontinue the same at any time. Accordingly, the purchaser must be prepared to hold the Offered Securities for an indefinite period of time or until their maturity.

(9) *Investment Company Act.* The purchaser either (a) is not a U.S. Person or (b) is a Qualified Purchaser. The purchaser agrees that no sale, pledge or other transfer of a Note or Preference Share (or any interest therein) may be made (a) to a transferee acquiring Restricted Notes or Restricted Preference Shares except to a transferee that is a Qualified Purchaser, (b) to a transferee acquiring an interest in a

Regulation S Note or a Regulation S Preference Share that is not a U.S. Person unless such transferee is a Qualified Purchaser or (c) if such transfer would have the effect of requiring either of the Co-Issuers or the pool of Collateral to register as an investment company under the Investment Company Act. If the purchaser is a U.S. Person that is an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an "excepted investment company"): (x) all of the beneficial owners of outstanding securities (other than short-term paper) of such entity (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 ("pre-amendment beneficial owners"); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short-term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities of such entity, have consented to such entity's treatment as a "qualified purchaser" in accordance with the Investment Company Act. Such purchaser (i) is not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless such purchaser owns and invests on a discretionary basis at least U.S.\$25,000,000 in securities of issuers that are not affiliated persons of the dealer; (ii) is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan and (iii) will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner of a Note (or any interest therein) (A) is a U.S. Person and (B) is not a Qualified Institutional Buyer and also a Qualified Purchaser, then either of the Co-Issuers may require, by notice to such Holder, that such Holder sell all of its right, title and interest to such Note, to a person that is both a Qualified Institutional Buyer and a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by the Trustee in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market) to a person that certifies to the Trustee, the Co-Issuers and the Collateral Manager, in connection with such transfer, that such person is both a Qualified Institutional Buyer and a Qualified Purchaser and (ii) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

The Preference Share Paying Agency Agreement provides, that if, notwithstanding the foregoing restrictions, the Issuer determines that any beneficial owner of Preference Shares (A) is a U.S. Person and (B) is not both (1) a Qualified Institutional Buyer or an Institutional Accredited Investor (or an Accredited Investor that purchased such Preference Share or any interest therein directly from the Initial Purchaser) and (2) a Qualified Purchaser, then the Issuer may require, by notice to such holder, that such holder sell all of its right, title and interest to such Preference Shares to a person that is (1) a Qualified Institutional Buyer or an Institutional Accredited Investor (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to

an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (2) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (I) upon direction from the Collateral Manager or the Issuer, the Preference Share Registrar, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Shares to be transferred in a commercially reasonable sale (conducted by the Preference Share Paying Agent in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market) to a person that certifies to the Preference Share Paying Agent, Preference Share Registrar, the Issuer and the Collateral Manager, in connection with such transfer, that such person is (x) a Qualified Institutional Buyer or an Institutional Accredited Investor (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (y) a Qualified Purchaser and (II) pending such transfer, no further payments will be made in respect of the Preference Shares held by such beneficial owner.

(10) *ERISA*. Either (i) the purchaser is not (and for so long as it holds any Note or Preference Share or interest therein will not be) and is not acting on behalf of (and for so long as it holds any Note or Preference Share or interest therein, will not be acting on behalf of) (a) an "employee benefit plan" within the meaning of Section 3(3) of ERISA, a "plan" within the meaning of Section 4975(e)(1) of the Code (either such entity, a "plan"), an entity which is deemed to hold the assets of any such plan pursuant to the Plan Asset Regulation of the United States Department of Labor, 29 C.F.R. §2510.3-101 (the "Plan Asset Regulation"), which plan or entity is subject to Title I of ERISA or Section 4975 of the Code, or a governmental or church plan which is subject to any Federal, state or local law that is materially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code ("Similar Law") or (b) another Benefit Plan Investor or (ii) the purchase and ownership of the Notes or the Preference Shares, as the case may be, will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or any Similar Law.

With respect to a purchaser of Regulation S Preference Shares, the purchaser represents and warrants that it is not (and for so long as it holds such Regulation S Preference Shares will not be) and is not acting on behalf of (and for so long as it holds such Regulation S Preference Shares will not be acting on behalf of), (i) an employee benefit plan within the meaning of Section 3(3) of ERISA, a plan within the meaning of Section 4975(e)(1) of the Code, or an entity which is deemed to hold the assets of any such employee benefit plan or plan pursuant to the Plan Asset Regulation, which plan or entity is subject to Title I of ERISA or Section 4975 of the Code, (ii) another Benefit Plan Investor or (iii) a person who has control over the assets of the Issuer (such as the Collateral Manager) or provides investment advice to the Issuer for a fee, direct or indirect, or is an affiliate of any such person.

With respect to a purchaser of Restricted Preference Shares, the purchaser has disclosed whether it is (and for so long as it holds such Preference Shares will be), or is not (and for so long as it holds such Preference Shares will not be), acting on behalf of, (i) an employee benefit plan within the meaning of Section 3(3) of ERISA, a plan within the meaning of Section 4975(e)(1) of the Code, or an entity which is deemed to hold the

assets of any such employee benefit plan or plan pursuant to the Plan Asset Regulation, which plan or entity is subject to Title I of ERISA or Section 4975 of the Code, (ii) another Benefit Plan Investor or (iii) except as otherwise disclosed in the Subscription Agreement (or, in the case of a transfer, the transfer certificate), a person who exercises control over the assets of the Issuer (such as the Collateral Manager) or provides investment advice to the Issuer for a fee (direct or indirect) or is an affiliate of any such person. No initial purchase of Preference Shares will be permitted, if, after giving effect to such purchase, 25% or more of the aggregate liquidation preference of the Preference Shares, as determined under the Plan Asset Regulation (e.g., excluding Restricted Preference Shares held by persons, other than Benefit Plan Investors, having discretionary authority or control over the Issuer's assets or who provide investment advice to the Issuer for a fee, direct or indirect, or any affiliates thereof), would be held by Benefit Plan Investors. The purchaser further understands and agrees that the information supplied above will be utilized to determine whether Benefit Plan Investors own less than 25% of the aggregate liquidation preference of the Preference Shares.

The purchaser further understands that no transfer of any Preference Shares, whether Restricted Preference Shares or Regulation S Preference Shares, may be made to a Benefit Plan Investor or a Person, other than a Benefit Plan Investor, having discretionary authority or control over the Issuer's assets or who provides investment advice to the Issuer for a fee, direct or indirect, or any affiliate thereof.

In addition, if the purchaser is, or is acting on behalf of, a Plan subject to Title I of ERISA or an employee benefit plan that is not subject to Title I of ERISA but is subject to provisions of a Similar Law, the fiduciaries of such Plan or such employee benefit plan, as applicable, represent and warrant that they have been informed of and understand the Issuer's investment objectives, policies and strategies and that the decision to invest such Plan's assets or such employee benefit plan's assets, as the case may be, in Offered Securities was made with appropriate consideration of relevant investment factors with regard to such Plan or such employee benefit plan, as the case may be, and is consistent with the duties and responsibilities imposed upon fiduciaries with regard to their investment decisions under Title I of ERISA or such Similar Law.

(11) *Limitations on Flow-Through Status.* In the case of a purchaser that is a U.S. Person, it is either (a) not a Flow-Through Investment Vehicle or (b) a Qualifying Investment Vehicle. A purchaser is a "Flow-Through Investment Vehicle" if (a) if it would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act and the amount of the purchaser's investment in the Offered Securities exceeds 40% of the total assets (determined on a consolidated basis with its subsidiaries) of the purchaser; (b) any person owning any equity or similar interest in the purchaser has the ability to control any investment decision of such purchaser or to determine, on an investment-by-investment basis, the amount of such person's contribution to any investment made by the purchaser; (c) the purchaser was organized or reorganized for the specific purpose of acquiring a Note or Preference Shares; and (d) additional capital or similar contributions were specifically solicited from any person owning an equity or similar interest in the purchaser for the purpose of enabling the purchaser to purchase Offered Securities. For this purpose, a "Qualifying Investment Vehicle" is an entity (i) as to which all of the beneficial owners of any securities issued by such entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any

transferee of any such security to make, to the Issuer or the Co-Issuers, as the case may be, and the Note Registrar (in the case of the Notes) or the Preference Share Registrar (in the case of the Preference Shares) each of the representations set forth herein, the Indenture, the Preference Share Paying Agency Agreement and the Issuer Charter required to be made upon transfer of any of the relevant Class of Notes or Preference Shares (with modifications to such representations satisfactory to the Collateral Manager and the Issuer to reflect the indirect nature of the interests of such beneficial owners in such Notes or Preference Shares, including any modification permitting an initial beneficial owner of securities issued by such entity to represent that it is an Accredited Investor in lieu of being a Qualified Institutional Buyer).

If the purchaser is a U.S. Person that is a Qualifying Investment Vehicle (a) either (i) none of the beneficial owners of its securities is a U.S. Person or (ii) some or all of the beneficial owners of its securities are U.S. Persons and each such beneficial owner has certified to the purchaser that it is a Qualified Purchaser and (b) the purchaser has only one class of securities outstanding (other than any nominal share capital the distributions in respect of which are not correlated to or dependent upon distributions on, or the performance of, the Offered Securities).

(12) *Certain Transfers Void.* The purchaser agrees that (a) any sale, pledge or other transfer of an Offered Security (or any interest therein) made in violation of the transfer restrictions contained in this Offering Circular and in the Indenture, the Issuer Charter or the Preference Share Paying Agency Agreement, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, the Trustee and the Note Registrar (in the case of the Notes) or the Issuer, Preference Share Paying Agent and Preference Share Registrar (in the case of the Preference Shares) will be void and of no force or effect and (b) none of the Issuer, the Trustee, the Note Registrar (in the case of the Notes) and the Preference Share Paying Agent (in the case of the Preference Shares) has any obligation to recognize any sale, pledge or other transfer of an Offered Security (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

(13) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuer, the Initial Purchaser, the Trustee, the Preference Share Paying Agent and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties made or deemed to have been made by it in connection with its purchase of the Offered Securities are no longer accurate, the purchaser will promptly notify the Issuer, the Initial Purchaser, the Trustee and the Preference Share Paying Agent.

(14) *Cayman Islands.* The purchaser is not a member of the public in the Cayman Islands.

(15) *Legend for Notes.* The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Notes:

THIS NOTE HAS 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 JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED

ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), PURCHASING FOR ITS OWN ACCOUNT TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT ("REGULATION S"), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION.

NEITHER OF THE CO-ISSUERS HAS BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. PERSON (WITHIN THE MEANING OF REGULATIONS) THAT IS NOT BOTH (X) A QUALIFIED INSTITUTIONAL BUYER AND ALSO (Y) A "QUALIFIED PURCHASER" AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND RELATED RULES, A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT OR A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE "QUALIFIED PURCHASERS" AND/OR "KNOWLEDGEABLE EMPLOYEES" (EACH, A "QUALIFIED PURCHASER"), (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE CO-ISSUERS OR THE POOL OF COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE), OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE (IF REQUIRED BY THE INDENTURE) ATTACHED AS AN EXHIBIT TO THE INDENTURE REFERRED TO BELOW. EACH HOLDER HEREOF IS DEEMED TO REPRESENT AND WARRANT EITHER (A) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS SECURITY OR AN INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF ERISA THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE CODE, AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, WHICH PLAN OR ENTITY IS SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, A PLAN OR ANY OTHER BENEFIT PLAN INVESTOR OR (B) THE ACQUISITION AND HOLDING OF THIS SECURITY WILL NOT CONSTITUTE A NONEXEMPT PROHIBITED TRANSACTION IN VIOLATION OF SECTION 406 OF ERISA OR

SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, ANY MATERIALLY SIMILAR FEDERAL, STATE OR LOCAL LAW). THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED ONLY IN PERMITTED DENOMINATIONS SPECIFIED IN THE INDENTURE. THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A REGULATION S NOTE ONLY UPON RECEIPT BY THE TRUSTEE OF A TRANSFER CERTIFICATE FROM THE TRANSFEROR SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE. ACCORDINGLY, AN INVESTOR IN THIS NOTE MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF SUCH INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

The legend set forth on any Restricted Global Note representing Class A Notes, Class B Notes and Class C Notes will also have the following:

IF, NOTWITHSTANDING THE RESTRICTIONS ON TRANSFER CONTAINED IN THE INDENTURE, THE ISSUER DETERMINES THAT ANY BENEFICIAL OWNER OF A NOTE (OR ANY INTEREST THEREIN) (A) IS A U.S. PERSON (WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT) AND (B) IS NOT BOTH (I) A QUALIFIED INSTITUTIONAL BUYER AND (II) A QUALIFIED PURCHASER, THEN THE ISSUER MAY REQUIRE, BY NOTICE TO SUCH HOLDER, THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO SUCH NOTE (OR INTEREST THEREIN) TO A PERSON THAT IS BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH BENEFICIAL OWNER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (1) UPON DIRECTION FROM THE COLLATERAL MANAGER OR THE ISSUER, THE TRUSTEE, ON BEHALF OF AND AT THE EXPENSE OF THE ISSUER, SHALL CAUSE SUCH BENEFICIAL OWNER'S INTEREST IN SUCH NOTE TO BE TRANSFERRED IN A COMMERCIALY REASONABLE SALE (CONDUCTED BY THE TRUSTEE IN ACCORDANCE WITH SECTION 9-610(b) OF THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE STATE OF NEW YORK AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET) TO A PERSON THAT CERTIFIES TO THE TRUSTEE, THE CO-ISSUERS AND THE COLLATERAL MANAGER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON IS BOTH (I) A QUALIFIED INSTITUTIONAL BUYER AND (II) A QUALIFIED PURCHASER AND (2) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF SUCH NOTE HELD BY SUCH BENEFICIAL OWNER.

IN ADDITION, NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NONE OF THE TRUSTEE, THE NOTE REGISTRAR AND THE CO-ISSUERS WILL RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS (A) A DEALER DESCRIBED IN PARAGRAPH (a)(1)(ii) OF RULE 144A WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER OR (B) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR

SPONSOR OF SUCH PLAN. THE TRANSFEREE, AND EACH ACCOUNT FOR WHICH IT IS PURCHASING, IS REQUIRED TO HOLD AND TRANSFER AT LEAST THE MINIMUM DENOMINATIONS OF THE NOTES. EACH TRANSFEREE IS REQUIRED TO PROVIDE WRITTEN NOTICE OF THE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREES.

(16) *Legend for Preference Shares.* The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Preference Shares:

THE PREFERENCE SHARES REPRESENTED 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 JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), PURCHASING FOR ITS OWN ACCOUNT TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT ("REGULATIONS") OR (3) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT (AN "INSTITUTIONAL ACCREDITED INVESTOR") IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (SUBJECT TO THE DELIVERY OF SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS THE ISSUER MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER RELEVANT JURISDICTION.

NEITHER THE ISSUER NOR THE POOL OF COLLATERAL HAS BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (TOGETHER WITH THE RULES THEREUNDER, THE "INVESTMENT COMPANY ACT"). NO TRANSFER OF A PREFERENCE SHARE REPRESENTED HEREBY (OR ANY INTEREST HEREIN) MAY BE MADE (AND THE PREFERENCE SHARE PAYING AGENT, THE PREFERENCE SHARE REGISTRAR AND THE ISSUER WILL NOT RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. PERSON (WITHIN THE MEANING OF REGULATIONS) THAT IS NOT BOTH (X)(1) A QUALIFIED INSTITUTIONAL BUYER OR (2) AN INSTITUTIONAL ACCREDITED INVESTOR AND ALSO (Y) A "QUALIFIED PURCHASER" AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND RELATED RULES, A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT OR A COMPANY BENEFICIALLY

OWNED EXCLUSIVELY BY ONE OR MORE "QUALIFIED PURCHASERS" AND/OR "KNOWLEDGEABLE EMPLOYEES" WITH RESPECT TO THE ISSUER (EACH, A "QUALIFIED PURCHASER") THAT TAKES DELIVERY OF THE PREFERENCE SHARES REPRESENTED HEREBY (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED PREFERENCE SHARE CERTIFICATE, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE POOL OF COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE), (D) AFTER GIVING EFFECT TO SUCH TRANSFER, 25% OR MORE (AS DETERMINED UNDER THE PLAN ASSET REGULATION OF THE UNITED STATES DEPARTMENT OF LABOR, 29 CFR SECTION 2510.3-101(f)) OF THE AGGREGATE LIQUIDATION PREFERENCE OF THE PREFERENCE SHARES WOULD BE HELD BY BENEFIT PLAN INVESTORS (AS DEFINED IN SUCH REGULATION), (E) SUCH TRANSFER WOULD HAVE THE EFFECT OF CAUSING THE ASSETS OF THE ISSUER TO BE DEEMED TO BE "PLAN ASSETS" FOR PURPOSES OF ERISA, (F) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS (i) AN EMPLOYEE BENEFIT PLAN WITHIN THE MEANING OF SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), A PLAN WITHIN THE MEANING OF SECTION 4975(e)(1) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN PURSUANT TO TITLE 29, SECTION 2510.3-101(f) OF THE UNITED STATES CODE OF FEDERAL REGULATIONS (THE "PLAN ASSET REGULATION"), WHICH PLAN OR ENTITY IS SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE (EACH SUCH EMPLOYEE BENEFIT PLAN, PLAN, OR ENTITY, A "PLAN INVESTOR"), (ii) ANOTHER PLAN INVESTOR OR (iii) A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO EXERCISES CONTROL OVER THE ASSETS OF THE ISSUER (SUCH AS THE COLLATERAL MANAGER) OR PROVIDES INVESTMENT ADVICE TO THE ISSUER FOR A FEE, DIRECT OR INDIRECT, OR IS AN AFFILIATE OF ANY SUCH PERSON, OR (G) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT. ACCORDINGLY, AN INVESTOR IN PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF SUCH INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

EACH HOLDER HEREOF IS REQUIRED TO REPRESENT AND WARRANT EITHER (A) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS SECURITY OR AN INTEREST HEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS SECURITY OR AN INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF) A PLAN OR ANY OTHER BENEFIT PLAN INVESTOR OR (B) THE ACQUISITION AND HOLDING OF THIS SECURITY WILL NOT CONSTITUTE A NONEXEMPT PROHIBITED TRANSACTION IN VIOLATION OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, ANY MATERIALLY SIMILAR FEDERAL, STATE OR LOCAL LAW).

IN ADDITION, NO TRANSFER OF THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY BENEFICIAL INTEREST HEREIN) MAY BE MADE (AND THE PREFERENCE SHARE PAYING AGENT, THE PREFERENCE SHARE REGISTRAR AND THE ISSUER WILL NOT RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS (A) A DEALER DESCRIBED IN PARAGRAPH (a)(1)(ii) OF RULE 144A WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER OR (B) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN.

THE PREFERENCE SHARES REPRESENTED HEREBY OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED IN THE UNITED STATES OR TO U.S. PERSONS IN THE FORM OF RESTRICTED PREFERENCE SHARES ONLY IF THE PURCHASER IS (A)(1) A QUALIFIED INSTITUTIONAL BUYER OR AN INSTITUTIONAL ACCREDITED INVESTOR AND (2) A QUALIFIED PURCHASER AND (B) ACQUIRING THE SECURITIES FOR ITS OWN ACCOUNT, AND IN TRADING LOTS OF NOT LESS THAN 100 PREFERENCE SHARES. THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A REGULATION S PREFERENCE SHARE CERTIFICATE UPON RECEIPT BY THE PREFERENCE SHARE PAYING AGENT OF A TRANSFER CERTIFICATE FROM THE TRANSFEROR SUBSTANTIALLY IN THE FORM SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT.

IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, THE ISSUER DETERMINES THAT ANY HOLDER OF THIS SECURITY OR AN INTEREST HEREIN (I) IS A U.S. PERSON AND (II) IS NOT BOTH (A)(1) A QUALIFIED INSTITUTIONAL BUYER OR (2) AN INSTITUTIONAL ACCREDITED INVESTOR (OR AN ACCREDITED INVESTOR THAT PURCHASED SUCH PREFERENCE SHARE OR ANY INTEREST THEREIN DIRECTLY FROM THE INITIAL PURCHASER) AND (B) A QUALIFIED PURCHASER, THE ISSUER MAY REQUIRE, BY NOTICE TO SUCH HOLDER THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO THIS SECURITY (OR INTEREST HEREIN) TO A PERSON THAT IS BOTH (A)(1) A QUALIFIED INSTITUTIONAL BUYER OR (2) AN INSTITUTIONAL ACCREDITED INVESTOR AND (B) A QUALIFIED PURCHASER, WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH HOLDER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (X) UPON WRITTEN DIRECTION FROM THE COLLATERAL MANAGER OR THE ISSUER, THE PREFERENCE SHARE PAYING AGENT SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH HOLDER TO CAUSE ITS INTEREST IN THIS SECURITY TO BE TRANSFERRED IN A COMMERCIALY REASONABLE SALE ARRANGED BY THE COLLATERAL MANAGER (CONDUCTED BY THE PREFERENCE SHARE PAYING AGENT IN ACCORDANCE WITH SECTION 9-610(b) OF THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE STATE OF NEW YORK AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET) TO A PERSON THAT CERTIFIES TO THE PREFERENCE SHARE PAYING AGENT, THE ISSUER AND THE COLLATERAL MANAGER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH

PERSON IS BOTH (A)(1) A QUALIFIED INSTITUTIONAL BUYER OR (2) AN INSTITUTIONAL ACCREDITED INVESTOR AND (B) A QUALIFIED PURCHASER, AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE INTEREST IN THIS SECURITY HELD BY SUCH HOLDER AND THE INTEREST IN THIS SECURITY SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE HOLDERS OF THE PREFERENCE SHARES.

The following shall be inserted in the case of Global Notes and Regulation S Preference Shares:

UNLESS THIS [NOTE] [PREFERENCE SHARE] IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE [NOTE REGISTRAR] [PREFERENCE SHARE REGISTRAR] FOR REGISTRATION OF TRANSFER OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

The following shall be inserted in the case of Regulation S Preference Shares:

THIS PREFERENCE SHARE CERTIFICATE REPRESENTS GLOBAL PREFERENCE SHARES DEPOSITED WITH DTC ACTING AS DEPOSITARY, AND REGISTERED IN THE NAME OF CEDE & CO., A NOMINEE OF DTC, AND CEDE & CO., AS HOLDER OF RECORD, SHALL BE ENTITLED TO RECEIVE ALL DISTRIBUTIONS, OTHER THAN THE FINAL REDEMPTION AMOUNTS, BY WIRE TRANSFER OF IMMEDIATELY AVAILABLE FUNDS. THE STATEMENTS IN THE LEGEND RELATING TO DTC SET FORTH ABOVE ARE AN INTEGRAL PART OF THE TERMS OF THESE PREFERENCE SHARES AND BY ACCEPTANCE THEREOF EACH HOLDER AGREES TO BE SUBJECT TO AND BOUND BY THE TERMS AND PROVISIONS SET FORTH IN SUCH LEGEND.

UPON ANY SUCH EXCHANGE OR TRANSFER OF A BENEFICIAL INTEREST IN THIS PREFERENCE SHARE CERTIFICATE FOR A DEFINITIVE PREFERENCE SHARE CERTIFICATE OR FOR A RESTRICTED PREFERENCE SHARE CERTIFICATE OR UPON ANY EXCHANGE OR TRANSFER OF A DEFINITIVE PREFERENCE SHARE CERTIFICATE OR A RESTRICTED PREFERENCE SHARE CERTIFICATE FOR AN INTEREST IN THIS PREFERENCE SHARE CERTIFICATE IN ACCORDANCE WITH THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, THIS REGULATION S GLOBAL CERTIFICATE SHALL BE ENDORSED TO REFLECT THE CHANGE OF THE PRINCIPAL AMOUNT EVIDENCED HEREBY.

EACH HOLDER HEREOF IS DEEMED TO REPRESENT AND WARRANT THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS PREFERENCE SHARE WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS PREFERENCE SHARE WILL NOT BE ACTING ON BEHALF OF) (i) AN EMPLOYEE BENEFIT PLAN WITHIN THE MEANING OF SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED

("ERISA"), A PLAN WITHIN THE MEANING OF SECTION 4975(e)(1) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN PURSUANT TO TITLE 29, SECTION 2510.3-101(f) OF THE UNITED STATES CODE OF FEDERAL REGULATIONS (THE "PLAN ASSET REGULATION"), WHICH PLAN OR ENTITY IS SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, (ii) ANOTHER BENEFIT PLAN INVESTOR OR (iii) A PERSON WHO EXERCISES CONTROL OVER THE ASSETS OF THE ISSUER (SUCH AS THE COLLATERAL MANAGER) OR PROVIDES INVESTMENT ADVICE TO THE ISSUER FOR A FEE, DIRECT OR INDIRECT, OR IS AN AFFILIATE OF ANY SUCH PERSON.

Investor Representations on Resale. Except as provided below, each transferee of an Offered Security will be required to deliver to the Issuer and the Note Registrar (in case of a Note) or the Preference Share Paying Agent (in case of Preference Shares) a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture or the Preference Share Paying Agency Agreement and such other certificates and other information as the Issuer, the Co-Issuer, the Collateral Manager, the Trustee or the Preference Share Paying Agent may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular. An owner of a beneficial interest in a Regulation S Global Note or Regulation S Preference Shares may transfer such interest in the form of a beneficial interest in such Regulation S Global Note or Regulation S Preference Shares without the provision of written certification, *provided* that any such transfer may only be made to a person that is not a U.S. Person and that is not acquiring such beneficial interest for the account or benefit of a U.S. Person and any such transfer may only be effected in an offshore transaction in accordance with Regulation S and only in accordance with the Applicable Procedures. An owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification. Each transferee of a beneficial interest in a Regulation S Global Note or Restricted Global Note will be deemed to make the same representations and warranties at the time of purchase that a transferee of a Note that is required to deliver a transferee certificate would be required to make pursuant to such transferee certificate.

Each transferee of a Preference Share is deemed to represent and warrant that it is not (i) an employee benefit plan within the meaning of Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), a plan within the meaning of Section 4975(e)(1) of the United States Internal Revenue Code of 1986, as amended (the "Code"), or an entity which is deemed to hold the assets of any such employee benefit plan or plan pursuant to Title 29, Section 2510.3-101(f) of the United States Code of Federal Regulations (the "Plan Asset Regulation"), which plan or entity is subject to Title I of ERISA or Section 4975 of the Code (each such employee benefit plan, plan, or entity, a "Benefit Plan Investor"), (ii) another Benefit Plan Investor or (iii) a person (other than a Benefit Plan Investor) who exercises control over the assets of the Issuer (such as the Collateral Manager) or provides investment advice to the Issuer for a fee, direct or indirect, or an affiliate of any such person.

Each transferee of an Offered Security that is required to deliver a transferee certificate will be required, pursuant to such transferee certificate and each transferee that is not required to deliver a certificate will be deemed (a) to acknowledge, represent to and agree with the Issuer and the Trustee or the Preference Share Paying Agent, as the case may be, as to the matters set forth in each of paragraphs (1) through (16) above (other than paragraphs (5) and (6)) as if

each reference therein to "the purchaser" were instead a reference to the transferee and (b) to further represent to and agree with the Issuer and the Trustee as follows:

(1) In the case of a transferee who takes delivery of a beneficial interest in Restricted Notes or Restricted Preference Shares, it (i) is both (x) a Qualified Institutional Buyer (or, solely in the case of the Preference Shares, an Institutional Accredited Investor) and (y) a Qualified Purchaser; (ii) is not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless such purchaser owns and invests on a discretionary basis at least U.S.\$25,000,000 in securities of issuers that are not affiliated persons of the dealer; (iii) is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan; (iv) will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee; (v) is aware that the sale to it is being made in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act or, in the case of a Class A-2A Note, in accordance with the transfer and certification requirements set forth in the Class A-2A Notes Supplement, and (vi) is acquiring such Notes or Preference Shares for its own account; *provided* that a transferee of Restricted Preference Shares (or any interest therein) acquiring pursuant to a transfer made in accordance with exemption from the registration requirements of the Securities Act other than Rule 144A (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) need not make any of the foregoing representations relating to Rule 144A. In the case of a transferee who takes delivery of Regulation S Notes or Regulation S Preference Shares, it (i) is acquiring such Regulation S Notes or Regulation S Preference Shares in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (ii) is acquiring such Regulation S Notes or Regulation S Preference Shares for its own account, (iii) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Regulation S Notes or Regulation S Preference Shares while it is in the United States or any of its territories or possessions, (iv) understands that such Regulation S Notes or Regulation S Preference Shares are being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations and (v) understands that such Regulation S Notes and Regulation S Preference Shares may not, absent an applicable exemption, be transferred without registration and/or qualification under the Securities Act and applicable state securities laws and the laws of any other applicable jurisdiction. In addition, each Preference Shareholder must provide the Issuer and the Preference Share Registrar an executed Preference Share Transfer Certificate or representation letter in the appropriate form attached to the Preference Share Paying Agency Agreement.

(2) It acknowledges that the foregoing acknowledgements, representations and agreements will be relied upon by the Trustee or Preference Share Paying Agent for the purpose of determining its eligibility to purchase Notes or Preference Shares, as applicable. It agrees to provide, if requested, any additional information that may be required to substantiate its status as a Qualified Institutional Buyer or an Institutional Accredited Investor or under the exception provided pursuant to Section 3(c)(7) of the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of

the Code or to otherwise determine its eligibility to purchase Notes or Preference Shares, as applicable.

Disqualified Offered Security Transferees. If the Trustee (or the Preference Share Paying Agent, in the case of the Preference Shares) determines or is notified by the Issuer, the Collateral Manager or the Initial Purchaser that (i) a transfer or attempted or purported transfer of any interest in any Note or Preference Share was consummated pursuant to the Indenture or the Preference Share Documents, as applicable, on the basis of an incorrect form or certification from the transferee or purported transferee, (ii) a transferee failed to deliver to the Trustee (or the Preference Share Paying Agent, in the case of Preference Shares) any form or certificate required to be delivered pursuant to the Indenture or the Preference Share Documents, as applicable, (iii) the holder of any interest in an Offered Security is in breach of any representation or agreement set forth in any certificate or any deemed representation or agreement of such Offered Security or (iv) such transfer would have the effect of causing the assets of the Issuer to be deemed to be "Plan Assets" for purposes of ERISA, the Trustee or the Preference Share Paying Agent, as the case may be, will not register such attempted or purported transfer and if a transfer has been registered, such transfer will be absolutely null and void *ab initio* and will vest no rights in the purported transferee (such purported transferee, a "Disqualified Offered Security Transferee") and the last preceding holder of such interest in such Offered Security that was not a Disqualified Offered Security Transferee will be restored to all rights as a holder thereof retroactively to the date of transfer of such Offered Security by such holder.

LISTING AND GENERAL INFORMATION

1. Application has been made to the Irish Stock Exchange for the Notes and the Preference Shares to be admitted to the Daily Official List of the Irish Stock Exchange. In connection with the listing of the Notes and the Preference Shares on the Irish Stock Exchange, the final Offering Circular will be filed with the Registrar of Companies of Ireland pursuant to Regulation 13 of the European Communities (Stock Exchange) Regulations, 1984 of Ireland.
2. For fourteen days following the date of the final Offering Circular copies of the Issuer Charter, the Certificate of Incorporation and By-laws of the Co-Issuer, the Administration Agreement, the Indenture, the Collateral Management Agreement, the Preference Share Paying Agency Agreement, the Collateral Administration Agreement, the form of the Subscription Agreements, Securities Purchase Agreement and the Hedge Agreement will be available for inspection and copies of the monthly reports and quarterly valuation reports of the Issuer described in item 4 below and the transfer certificates will be available for inspection at the registered office of the Issuer or the Co-Issuer, as applicable, and at the offices of the Irish Paying Agent located in Dublin, Ireland. No financial statements will be prepared by, or on behalf of, either of the Co-Issuers.
3. Copies of the Issuer Charter, the Certificate of Incorporation and By-laws of the Co-Issuer, the Administration Agreement, the resolutions of the Board of Directors of the Issuer authorizing the issuance of the Notes and Preference Shares and the execution of the Indenture, the Collateral Management Agreement, the Hedge Agreement and the resolutions of the Board of Directors of the Co-Issuer authorizing the issuance of the Notes and the Indenture will be available for inspection during the term of the Notes in the city of Houston, Texas at the office of the Trustee and at the office of the Irish Paying Agent located in Dublin, Ireland.
4. So long as any Offered Securities are listed on the Irish Stock Exchange, copies of the monthly reports and quarterly note valuation reports with respect to the Offered Securities and the Collateral Debt Securities will be prepared by the Issuer in accordance with the Indenture and will be obtainable free of charge upon request in Ireland at the offices of the Irish Paying Agent located in Dublin, Ireland. The monthly reports will be prepared each month (excluding any month in which a quarterly noteholder report is prepared), beginning with the monthly report for May, and the quarterly note valuation reports will be prepared each March, June, September and December, beginning in June, 2004.
5. Each of the Co-Issuers represents that there has been no material adverse change in its financial position since its date of creation.
6. Neither of the Co-Issuers is involved in any litigation or arbitration proceedings relating to claims on amounts which are material in the context of the issue of the Offered Securities, nor, so far as either of the Co-Issuers is aware, is any such litigation or arbitration involving it pending or threatened.
7. The issuance of the Offered Securities was authorized by the Board of Directors of the Issuer on February 24, 2004. The issuance of the Notes was authorized by the Board of Directors of the Co-Issuer on February 23, 2004. Since the date of its creation, neither

Co-Issuer has commenced operations and no accounts have been made up as of the date of this Offering Circular.

8. According to the rules and regulations of the Irish Stock Exchange, the Offered Securities shall be freely transferable and therefore no transaction made on the Irish Stock Exchange shall be canceled.
9. Notes and Preference Shares sold in offshore transactions in reliance on Regulation S and represented by Regulation S Global Notes and Regulation S Preference Shares have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The table below lists the 3 (CINS) Numbers, the International Securities Identification Numbers (ISIN) and the common codes for Notes represented by Regulation S Global Notes and for Preference Shares represented by Regulation S Preference Shares and the CUSIP numbers for Notes represented by Definitive Notes and for Preference Shares represented by Definitive Preference Shares:

	<u>Regulation S Common Codes</u>	<u>Regulation S Global Note and Regulation S Preference Shares CUSIP Numbers</u>	<u>Restricted Global Note and Restricted Preference Shares CUSIP Numbers</u>	<u>Regulation S International Securities Identification Numbers</u>
Class A-1 Notes	018588919	G47546AA7	45343PAA3	USG47546AA77
Class A-2A Notes	018588994	G47546AB5	45343PAB1	USG47546AB50
Class A-2B Notes	018589036	G47546AC3	45343PAC9	USG47546AC34
Class B Notes	018589150	G47546AD1	45343PAD17	USG47546AD17
Class C Notes	018589320	G47546AE9	45343PAE5	USG47546AE99
Series 1 Preference Shares	018590549	G47542108	45343X207	KYG475421080
Series 2 Preference Shares	018591146	G47542207	45343X405	KYG475421080

LEGAL MATTERS

Certain legal matters with respect to the Offered Securities will be passed upon for the Issuer by Freshfields Bruckhaus Deringer LLP, New York, New York. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Walkers.

SCHEDULE A

Part I Moody's Loss Scenario Matrix

(see definition of "Applicable Recovery Rate")

A. ABS Type Diversified Securities

Percentage of Total Capitalization	Moody's Rating					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	15%	20%	30%	40%	50%	60%
Less than or equal to 70%, but greater than 10%	25%	30%	40%	50%	60%	70%
Less than or equal to 10%	30%	35%	45%	55%	65%	75%

B. ABS Type Residential Securities

Percentage of Total Capitalization	Moody's Rating					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	15%	20%	35%	45%	55%	70%
Less than or equal to 70%, but greater than 10%	25%	30%	45%	55%	65%	75%
Less than or equal to 10%, but greater than 5%	35%	45%	55%	60%	70%	80%
Less than or equal to 5%, but greater than 2%	45%	55%	60%	65%	75%	85%
Less than or equal to 2%	55%	65%	70%	75%	85%	90%

C. ABS Type Undiversified Securities

Percentage of Total Capitalization	Moody's Rating					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	15%	20%	35%	45%	55%	70%
Less than or equal to 70%, but greater than 10%	25%	30%	45%	55%	65%	75%
Less than or equal to 10%, but greater than 5%	35%	45%	55%	65%	75%	85%
Less than or equal to 5%, but greater than 2%	45%	55%	65%	70%	80%	90%
Less than or equal to 2%	55%	65%	75%	80%	90%	95%

D. Low-Diversity CBO Securities

Percentage of Total Capitalization	Moody's Rating					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	20%	25%	40%	50%	55%	70%
Less than or equal to 70%, but greater than 10%	30%	40%	45%	55%	65%	75%
Less than or equal to 10%, but greater than 5%	40%	50%	55%	65%	75%	85%
Less than or equal to 5%, but greater than 2%	50%	60%	65%	70%	80%	90%
Less than or equal to 2%	70%	75%	80%	85%	93%	96%

E. High-Diversity CBO Securities

Percentage of Total Capitalization	Moody's Rating					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	15%	20%	35%	45%	55%	70%
Less than or equal to 70%, but greater than 10%	25%	30%	40%	50%	60%	75%
Less than or equal to 10%, but greater than 5%	35%	45%	50%	60%	70%	80%
Less than or equal to 5%, but greater than 2%	45%	55%	60%	65%	75%	90%
Less than or equal to 2%	55%	65%	70%	75%	90%	95%

****If the Collateral Debt Security is a Corporate Debt Security, the recovery rate will be 30%.**

Part II
Standard & Poor's Loss Scenario Matrix

- A. If the Collateral Debt Security is the senior-most tranche of securities issued by the issuer of such Collateral Debt Security*:**

	"AAA"	"AA"	"A"	"BBB"	"BB"
"AAA"	80.0%	85.0%	90.0%	90.0%	90.0%
"AA"	70.0%	75.0%	85.0%	90.0%	90.0%
"A"	60.0%	65.0%	75.0%	85.0%	90.0%
"BBB"	50.0%	55.0%	65.0%	75.0%	85.0%

- B. If the Collateral Debt Security is not the senior-most tranche of securities issued by the issuer of such Collateral Debt Security*:**

	"AAA"	"AA"	"A"	"BBB"	"BB"
"AA"	55.0%	65.0%	75.0%	80.0%	80.0%
"A"	40.0%	45.0%	55.0%	65.0%	80.0%
"BBB"	30.0%	35.0%	40.0%	45.0%	50.0%
"BB"	10.0%	10.0%	10.0%	25.0%	35.0%
"B"	2.5%	5.0%	5.0%	10.0%	10.0%
"CCC"	0.0%	0.0%	0.0%	0.0%	2.5%

- C. If the Collateral Debt Security is a Synthetic Security, the recovery rate will be assigned by Standard & Poor's upon the acquisition of such Security by the Issuer.**
- D. If the Collateral Debt Security is guaranteed by (1) an insurance company that has been assigned a Standard & Poor's Financial Enhancement Rating (FER, including Collateral Debt Securities guaranteed by a monoline financial insurance company that has been assigned a FER), the recovery rate will be 50% and (2) a guarantor not subject to the foregoing clause (1), the recovery rate will be 40%.**
- E. If the Collateral Debt Security is an ABS REIT Debt Security, the recovery rate will be 40%.**
- F. This Schedule does not apply to Project Finance Securities, Future Flows Securities, Collateralized Debt Obligations of Asset-Backed Securities, Collateralized Debt Obligations of Collateralized Debt Obligations, Market Value Collateralized Debt Obligations, Interest Only or Principal Only Securities, Net Interest Margin Securities or First Loss Tranches. Such assets require case-by-case assignment of recovery rates.**

Part III
Fitch Recovery Rate Matrix

A. So long as any Notes are rated "AA-" or higher by Fitch:

Fitch Rating	Recovery Rate
Greater than or equal to "AA-"	60%
Greater than or equal to "BBB-" but less than "AA-"	20%
Less than "BBB-"	0%
REIT Debt – Senior	50%
Senior Secured Corporate Debt	40%
Senior Unsecured Corporate Debt	40%
Subordinate Unsecured Corporate Debt	20%

B. If no Notes are rated "AA-" or higher by Fitch but any Notes are rated "A-" or higher by Fitch:

Fitch Rating	Recovery Rate
Greater than or equal to "AA-"	60%
Greater than or equal to "BBB-" but less than "AA-"	30%
Less than "BBB-"	5%
REIT Debt – Senior Unsecured	50%
Senior Secured Corporate Debt	60%
Senior Unsecured Corporate Debt	40%
Subordinate Unsecured Corporate Debt	20%

C. If no Notes are rated "A-" or higher by Fitch:

Fitch Rating	Recovery Rate
Greater than or equal to "AA-"	60%
Greater than or equal to "BBB-" but less than "AA-"	40%
Less than "BBB-"	10%
REIT Debt – Senior Unsecured	60%
Senior Secured Corporate Debt	60%
Senior Unsecured Corporate Debt	40%
Subordinate Unsecured Corporate Debt	20%

SCHEDULE B
Fitch Sector and Subsector Classifications¹

<p><u>MBS</u> Large Loan Conduit Credit Tenant Leases</p>	<p><u>CDO of Corporates</u> Cashflow Market Value Synthetic</p>	<p><u>Commercial ABS- Small Business</u> Equipment Leases Franchise Loans Inventory Financing Small Business Loans Tax Liens</p>	<p><u>Corporate</u> Aerospace & Defense Automobiles Banking & Finance Broadcasting/Media/Cable Building & Materials Business Services Chemicals Computers & Electronics Consumer Products Energy Food, Beverage & Tobacco Gaming, Leisure & Entertainment Health Care & Pharmaceutical Industrial/Manufacturing Lodging & Restaurants Metals & Mining Packaging & Containers Paper & Forest Products Real Estate Retail (General) Supermarkets & Drugstores Telecommunications Textiles & Furniture Transportation Utilities</p>
<p><u>MBS Prime</u> Residential A Alt A</p>	<p><u>CDO of Structured Assets</u> Cashflow Market Value Synthetic</p>	<p><u>Commercial ABS- Travel/ Transportation</u> Aircraft Loans/Leases Dealer Floorplan Rail Car Rental Fleet Taxi Medallion</p>	
<p><u>MBS Subprime</u> Home Equity High LTV Manufactured Housing Residential B/C</p>	<p><u>Consumer ABS</u> Credit Cards Auto Prime Auto SubPrime Consumer Loans Student Loans Charged Off Credit Cards Motorcycles Timeshare RV/Boats Other</p>	<p><u>Commercial ABS- Other</u> 12B1 Fees Agriculture Loans Future Flow Healthcare Receivables Intellectual Property Other Stadium Financing Structured Settlements Utility Stranded Costs Weather Bonds</p>	
<p><u>Real Estate</u> REIT-Apartments REIT-Diversified REIT-Industrial/Office REIT-Healthcare REIT-Hotels REIT-Retail</p>			

Note: Deals guaranteed by an insurer/guarantor should be categorized under Banking & Finance for purposes of Fitch sector.

LTV = Loan to value ratio. RV = Recreational vehicle.

¹ Fitch Assigned Subsector definitions are subject to reasonable determination and interpretation by the Collateral Manager.

SCHEDULE C

Fitch Recovery Rate Matrix

Domicile	Seniority	AAA	AA	A	BBB	BB	B
ABS Senior (> 10%)		60%	65%	75%	85%	90%	95%
ABS Senior (< 10%)		48%	56%	64%	72%	76%	80%
ABS Mezzanine IG (> 10%)		30%	38%	46%	54%	65%	75%
ABS Mezzanine IG (< 10%)		20%	27%	35%	42%	50%	55%
ABS Non IG (> 10%)		15%	18%	21%	26%	32%	35%
ABS Non IG (< 10%)		0%	4%	8%	12%	16%	20%
United States	REITS	52%	55%	59%	62%	63%	65%
United States	Senior Secured (Non IG)	56%	60%	63%	67%	68%	70%
United States	Jr Secured (Non IG)	24%	26%	27%	29%	29%	30%
United States	Senior Unsecured (Non IG)	36%	38%	41%	43%	44%	45%
United States	Subordinate (Non IG)	24%	26%	27%	29%	29%	30%
United States	Senior Unsecured (IG)	44%	47%	50%	52%	54%	55%
United States	Subordinate (IG)	24%	26%	27%	29%	29%	30%
Emerging Markets		20%	21%	23%	24%	24%	25%
Japan		16%	17%	18%	19%	20%	20%

SCHEDULE D

Standard & Poor's Structured Finance Industry Categories

1. Consumer ABS
 - Automobile Loan Receivable Securities
 - Automobile Lease Receivable Securities
 - Car Rental Receivables Securities
 - Credit Card Securities
 - Healthcare Securities
 - Student Loan Securities
2. Commercial ABS
 - Cargo Securities
 - Equipment Leasing Securities
 - Aircraft Leasing Securities
 - Small Business Loan Securities
 - Restaurant and Food Service Securities
 - Tobacco Litigation Securities
3. RMBS
 - Home Equity Loan Securities
 - Manufactured Housing Loan Securities
4. CMBS
 - CMBS – Conduit
 - CMBS – Credit Tenant Lease
 - CMBS – Large Loan
 - CMBS – Single Borrower
 - CMBS – Single Property
5. CBO SECURITIES
 - Cashflow CBO – at least 80% High Yield Corporate
 - Cashflow CBO – at least 80% Investment Grade Corporate
6. REITs
 - REIT – Multifamily & Mobile Home Park
 - REIT – Retail
 - REIT – Hospitality
 - REIT – Office
 - REIT – Industrial
 - REIT – Healthcare
 - REIT – Warehouse
 - REIT – Self Storage
 - REIT – Mixed Use

SCHEDULE E

Standard & Poor's Types of Asset-Backed Securities Ineligible for Notching

The following asset classes are not eligible to be notched. Credit estimates must be performed. This schedule may be modified or adjusted at any time, so please verify applicability.

1. Non-U.S. Structured Finance Securities
2. Guaranteed Securities
3. CDOs of Structured Finance and Real Estate
4. CBOs of CDOs
5. CLOs of Distressed Debt
6. Mutual Fund Fee Securities
7. Catastrophic Bonds
8. First Loss Tranches of any securitization
9. Synthetics
10. Synthetic CBOs
11. Combination Securities
12. Re-REMICs
13. Market value CDOs
14. Net Interest Margin Securities (NIMs)
15. Any asset class not listed on Schedule F

SCHEDULE F

STANDARD & POOR'S NOTCHING OF ASSET-BACKED SECURITIES

The Standard & Poor's Rating of an Collateral Debt Security that is not of a type specified on Schedule E and that has not been assigned a rating by Standard & Poor's may be determined as set forth below.

- A. If such Collateral Debt Security is rated by Moody's and Fitch, the Standard & Poor's Rating of such Collateral Debt Security shall be the Standard & Poor's equivalent of the rating that is the number of subcategories specified in Table A below the lowest of the ratings assigned by Moody's and Fitch.
- B. If the Collateral Debt Security is rated by Moody's or Fitch, the Standard & Poor's Rating of such Collateral Debt Security shall be the Standard & Poor's equivalent of the rating that is one subcategory below the rating that is the number of subcategories specified in Table A below the rating assigned by Moody's or Fitch.

This Schedule may be modified from time to time by Standard & Poor's and its applicability should be confirmed with Standard & Poor's prior to use.

TABLE A

	Asset-Backed Securities issued prior to August 1, 2001		Asset-Backed Securities issued on or after August 1, 2001	
	(Lowest) current rating is:		(Lowest) current rating is:	
	"BBB-" or its equivalent or higher	Below "BBB-" or its equivalent	"BBB-" or its equivalent or higher	Below "BBB-" or its equivalent
1. Consumer ABS Automobile Loan Receivable Securities Automobile Lease Receivable Securities Car Rental Receivables Securities Credit Card Securities Healthcare Securities Student Loan Securities	-1	-2	-2	-3
2. Commercial ABS Cargo Securities Equipment Leasing Securities Aircraft Leasing Securities Small Business Loan Securities Restaurant and Food Services Securities Tobacco Settlement Securities	-1	-2	-2	-3

3. Non-Re-REMIC RMBS Manufactured Housing Loan Securities	-1	-2	-2	-3
4. Non-Re-REMIC CMBS CMBS – Conduit CMBS - Credit Tenant Lease CMBS – Large Loan CMBS – Single Borrower CMBS – Single Property	-1	-2	-2	-3
5. CBO Cashflow Securities Cash Flow CBO – at least 80% High Yield Corporate Cash Flow CBO – at least 80% Investment Grade Corporate	-1	-2	-2	-3
6. REITs REIT – Multifamily & Mobile Home Park REIT – Retail REIT – Hospitality REIT – Office REIT – Industrial REIT – Healthcare REIT – Warehouse REIT – Self Storage REIT – Mixed Use	-1	-2	-2	-3
7. Specialty Structured Stadium Financings Project Finance Future flows	-3	-4	-3	-4
8. Residential Mortgages Residential "A" Residential "B/C" Home equity loans	-1	-2	-2	-3
9. Real Estate Operating Companies	-1	-2	-2	-3

INDEX OF DEFINED TERMS

Following is an index of defined terms used in this Offering Circular and the page number where each definition appears.

25% Threshold	175
ABS Franchise Securities	117
ABS REIT Debt Securities	117
ABS Type Diversified Securities	117
ABS Type Residential Securities	117
ABS Type Undiversified Securities	117
Accredited Investor	vii, 11
Accredited Investors	179
Administration Agreement	98
Administrator	98
Aerospace and Defense Securities	107
Affected Class	9, 50
Affiliate	32, 102
Aggregate Amortized Cost	144
Aggregate Attributable Amount	144
Aggregate Weighted Average Price	129
Applicable Procedures	69, 87
Applicable Recovery Rate	60
Asset-Backed Securities	22
Auction	48
Auction Call Redemption	50
Auction Call Redemption Amount	49
Auction Call Redemption Date	50
Auction Call Redemption Procedures	48
Auction Date	48
Automobile Securities	107
Average Life	131
Bank Guaranteed Securities	107
Base Rate	45
Base Rate Reference Bank	45
Basis Swap	ii, 147
Basis Swap Counterparty	147
Benchmark Rate	60
Benefit Plan Investorvi
Business Day	53
Calculation Agent	44
Calculation Amount	60
Car Rental Receivable Securities	108
CBO Securities	117
CDO Issuer	101
CDO Obligation	101
CFC	171
Class	ii, 1
Class A Notes	ii, 1
Class A/B Coverage Tests	65
Class A/B Interest Coverage Ratio	66
Class A/B Interest Coverage Test	67
Class A/B Overcollateralization Ratio	65
Class A/B Overcollateralization Test	65
Class A-1 Break-Even Loss Rate	132

Class A-1 Loss Differential	132
Class A-1 Notes	ii, 1
Class A-1 Scenario Loss Rate	132
Class A-2 Break-Even Loss Rate	132
Class A-2 Loss Differential	132
Class A-2 Notes	ii, 1
Class A-2 Scenario Loss Rate	132
Class A-2A Agency and Amending Agreement	60
Class A-2A Notes	ii, 1
Class A-2A Notes Supplement	vii, 5
Class A-2B Notes	ii, 1
Class B Break-Even Loss Rate	132
Class B Loss Differential	132
Class B Notes	ii, 1
Class B Scenario Loss Rate	132
Class C Break-Even Loss Rate	133
Class C Coverage Tests	65
Class C Deferred Interest	5, 43
Class C Interest Coverage Ratio	66
Class C Interest Coverage Test	67
Class C Loss Differential	133
Class C Notes	ii, 1
Class C Notes Prepayment	7
Class C Overcollateralization Ratio	65
Class C Overcollateralization Test	66
Class C Scenario Loss Rate	133
Clearstream, Luxembourg	13
Closing Date	ii
CMBS Conduit Securities	108
CMBS Credit Tenant Lease Securities	108
CMBS Large Loan Securities	109
CMBS Securities	128
Code	174
Co-Issuer	ii, 3
Co-Issuers	ii, 3
Collateral	10, 101
Collateral Administration Agreement	156
Collateral Administrator	156
Collateral Debt Security	101, 102
Collateral Management Agreement	3, 156
Collateral Management Fee	163
Collateral Manager	ii, 3, 157
Collateral Manager Affiliates	163
Collateral Manager Group	102
Collateral Quality Tests	118
Collateralization Event	149
Collection Accounts	151
Commercial ABS Securities	128
Consumer ABS Securities	128
Control	102
Controlling Class	75
Controlling Person	175
Coverage Tests	65
Credit Card Securities	109
Credit Improved Security	135
Credit Risk Security	136

Current Portfolio	133
Declaration	ii, 3, 157
Defaulted Interest	44
Defaulted Security	136
Defaulted Synthetic Security	138
Deferred Interest PIK Security	60
Definitive Notes	68
Definitive Preference Shares	86
Deliverable Obligation	101
Designated Maturity	45
Designated Minimum Diversity Score	119
Determination Date	54, 61
Discount Haircut Amount	61
Discretionary Sale Percentage	137
Disqualified Offered Security Transferee	197
Distribution Date	ii, 43
Diversity Test	118
Dividend Yield	61
Dollars	viii
DTC	ii, 13, 68, 86
Due Period	61
Eligible Investments	152
Enhanced Equipment Debt Trust Certificates	109
Equipment Leasing Securities	109
Equity Security	61
ERISA	174
ERISA Plans	174
Euroclear	13
Event of Default	74
excepted investment company	185
Excess Funds	57
Excess Interest Funds	57
Excess Principal Funds	57
Exchange Act	xii
Expense Account	154
Fitch	ii
Fitch Rating	126
Fitch Rating Factor	126
Fitch Recovery Rate	61
Fitch Sector	128
Fitch Weighted Average Rating Factor	125
Fitch Weighted Average Rating Factor Test	125
Fixed Rate Excess	130
Floating Rate Security	140
Florida Act	viii
Flow-Through Investment Vehicle	187
FPHC	172
Global Notes	14
Healthcare Securities	109
Hedge Agreement	147
Hedge Counterparty	147
Hedge Counterparty Ratings Requirement	149
Hedge Rating Determining Party	149
High-Diversity CBO Securities	110
Holder	168
Home Equity Loan Securities	110

Indenture	ii, 1
indirect participants	73, 92
Initial Basis Swap Counterparty	147
Initial Hedge Counterparty	147
Initial Purchaser	ii, 11
Institutional Accredited Investor	vii
Insurance Company Guaranteed Securities	110
Interest Collection Account	151
Interest Distribution Amount	155
Interest Equalization Account	153
Interest Only Security	144
Interest Period	44
Interest Proceeds	61
Interest Proceeds Priority of Payments	54
Interest Reserve Account	155
Irish Paying Agent	vii
IRR	9, 48, 50
Issue	144
Issuer	ii, 3
Issuer Charter	ii
JHF	157
Legend	70, 88
LIBOR	44
LIBOR Business Day	45
LIBOR Determination Date	44
Listed Bidder	49
London Banking Day	46
Low-Diversity CBO Securities	110
Majority-in-Interest of Preference Shareholders	86
Manufactured Housing Securities	111
Measurement Date	62
MLPFS	ii
modified duration	96
Moody's	ii
Moody's B Rating Category	62
Moody's Ba Rating Category	62
Moody's Caa Rating Category	63
Moody's Maximum Rating Distribution	120
Moody's Maximum Rating Distribution Test	120
Moody's Minimum Weighted Average Recovery Rate Test	127
Moody's Rating	121
Moody's Rating Factor	121
Moody's Weighted Average Recovery Rate	127
Mutual Fund Fee Securities	111
NASD	33
Net Outstanding Portfolio Collateral Balance	63
NIM Security	144
Non-Performing NIM Security	137
Non-U.S. Holder	168
Note Register	68
Note Registrar	68
Noteholders	31
Notes	ii, 1
Offer	144
Offered Securities	ii, 1
Offering	vi

Offering Circular	vi
OID	169
Oil and Gas Securities	111
Optional Redemption	9, 50
Original Purchasers	11
Other ABS	101
Other ABS Issuer	101
Other Indebtedness	136
other security	122
Overcollateralization Haircut Amount	63
parallel security	124
Participants	69, 87
Paying Agent	53
Payment Account	154
PFIC	170
PIK Security	64
plan	186
Plan Asset Regulation	175, 186
plan fiduciary	174
Plan of Distribution	iv
Plans	174
pre-amendment beneficial owners	185
Preference Share Break-Even Loss Rate	133
Preference Share Documents	20
Preference Share Loss Differential	133
Preference Share Paying Agency Agreement	ii, 81
Preference Share Paying Agent	ii, 81
Preference Share Register	88
Preference Share Registrar	88
Preference Share Scenario Loss Rate	133
Preference Share Stated Balance	95
Preference Share Stated Coupon	94, 95
Preference Share Transfer Agent	88
Preference Shareholders	iii
Preference Shares	ii, 1
Principal Collection Account	151
Principal Proceeds	64
Principal Proceeds Priority of Payments	57
Priority of Payments	54
prohibited transactions	174
Project Finance Securities	112
Proposed Portfolio	133
QEF	171
Qualified Bidder	51
Qualified Institutional Buyer	vii, 11
Qualified Institutional Buyers	179
Qualified Purchaser	vii, 12
Qualifying Foreign Obligor	125
Qualifying Interest Only Securities	67
Qualifying Investment Vehicle	187
Ramp-Up Completion Date	94
Ramp-Up Test Date	67
Rating Agencies	ii
Rating Condition	145
Rating Confirmation	95
Ratings Event	150

Ratings Threshold	150
Record Date	53, 82
Recreational Vehicle Securities	112
Redemption Date	52
Redemption Price	53
Reference Banks	46
Reference Dealers	46
Reference Obligation	118
Reference Obligor	118
Registered	145
Regulation S	ii
Regulation S Global Certificates	86
Regulation S Global Notes	iii, 13
Regulation S Notes	13
Regulation S Preference Shares	iii, 15
Reinsurance Securities	112
REIT Debt Securities	128
REIT Debt Securities—Diversified	112
REIT Debt Securities—Health Care	113
REIT Debt Securities—Hotel	113
REIT Debt Securities—Industrial	113
REIT Debt Securities—Mortgage	113
REIT Debt Securities—Multi-Family	113
REIT Debt Securities—Office	113
REIT Debt Securities—Residential	113
REIT Debt Securities—Retail	114
REIT Debt Securities—Storage	114
REITs	24
Replacement Manager	165
Replacement Officer	166
Residential A Mortgage Securities	114
Residential B/C Mortgage Securities	114
Restaurant and Food Service Securities	115
Restricted Global Notes	iii, 13
Restricted Notes	13
Restricted Preference Shares	iii, 15, 86
RMBS Securities	129
Rule 144A	iv
Sale Proceeds	137
Scheduled Preference Share Redemption Date	96
SEC	34
Secured Parties	2
Securities Act	ii
Securities Purchase Agreement	179
Semi-Annual Pay Security	154
Senior	ii, 42
Senior Collateral Management Fee	163
Series 1 Preference Shares	ii, 1
Series 2 Preference Shares	ii, 1
Servicer	145
Share Trustee	98
Similar Law	175, 186
Small Business Loan Securities	115
Specified Principal Proceeds	138
Specified Type	117
Specified Types	107

Spread Excess	129
Standard & Poor's	ii
Standard & Poor's CCC Rating Category	64
Standard & Poor's CDO Monitor	133
Standard & Poor's CDO Monitor Test.....	131
Standard & Poor's Minimum Recovery Rate Test.....	131
Standard & Poor's Rating	127
Standard & Poor's Weighted Average Recovery Rate	131
Stated Maturity	6
Step-Down Bond	145
Step-Up Bond	145
Structured Settlement Securities.....	115
Student Loan Securities	115
Subordinate	ii, 42
Subordinate Collateral Management Fee	163
Subordinate Hedge Termination Payment	53
Subprime Automobile Securities	116
Subscription Agreement.....	ii
Substitution Period	7
Super-Majority-in-Interest of Preference Shareholders	86
Synthetic Security.....	118
Synthetic Security Counterparty	118
Synthetic Security Counterparty Defaulted Obligation.....	137
Tax Event	51
Tax Lien Securities	116
Tax Materiality Condition.....	51
Tax Redemption.....	9, 50
Time Share Securities.....	116
Tobacco Settlement Securities	117
Total Senior Redemption Amount	52
Transfer Agent	68
Transfer Restrictions	ii
Trustee	ii, 1
U.S. Agency Securities	154
U.S. Dollars	viii
U.S. Holder	168
U.S. Person	vii
U.S.\$.....	viii
Underlying Instruments	64
Uninvested Proceeds	65
Uninvested Proceeds Account.....	154
USA PATRIOT Act	33
Voting Percentage.....	86
Warehousing Agreement	32
Weighted Average Coupon	129
Weighted Average Coupon Test.....	129
Weighted Average Life.....	131
Weighted Average Life Test	130
Weighted Average Price Test.....	129
Weighted Average Spread	130
Weighted Average Spread Test.....	130
Written Down Security	138
Zero Coupon Bond	145

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