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DISCLAIMER

Attached please find an electronic copy of the Offering Circular dated June 2, 2005 (the "Offering Circular") relating to the offering by Kleros Preferred Funding, Ltd. and Kleros Preferred Funding, LLC of certain notes and preference shares.

The information contained in the electronic copy of the Offering Circular will be formatted in a manner which should exactly replicate the printed Offering Circular; however, physical appearance may differ and other discrepancies may occur for various reasons, including electronic communication difficulties or particular user equipment. The user of this Offering Circular assumes the risk of any discrepancies between the printed Offering Circular and the electronic version of this document.

Neither this e-mail nor the attached Offering Circular constitutes an offer to sell or the solicitation of an offer to buy the securities described in the Offering Circular in any jurisdiction in which such offer or solicitation would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

In order to be eligible to view this e-mail and/or access the Offering Circular or make an investment decision with respect to the securities described therein, you must either (i) be a Qualified Purchaser who is also (1) a "Qualified Institutional Buyer" within the meaning of Rule 144A under the Securities Act of 1933, as amended, or (2) an "accredited investor" within the meaning of Rule 501(a) under the Securities Act or (ii) not be a "U.S. person" within the meaning of Regulation S under the Securities Act. A "Qualified Purchaser" is (i) a "qualified purchaser" as defined in the United States Investment Company Act of 1940, as amended, (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 under the United States Investment Company Act of 1940, as amended, or (iii) a company beneficially owned exclusively by one or more "qualified purchasers" and/or "knowledgeable employees" with respect to the Issuer within the meaning of Rule 3c-5 under the United States Investment Company Act of 1940, as amended

By opening the attached documents and accessing the Offering Circular, you agree to accept the provisions of this page and consent to the electronic transmission of the Offering Circular.

THIS E-MAIL IS NOT TO BE DISTRIBUTED OR FORWARDED TO ANY PERSON OTHER THAN THE PERSON RECEIVING THIS ELECTRONIC TRANSMISSION FROM MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED AS INITIAL PURCHASER AND ANY PERSON RETAINED TO ADVISE THE PERSON RECEIVING THIS ELECTRONIC TRANSMISSION WITH RESPECT TO THE OFFERING CONTEMPLATED IN THE OFFERING CIRCULAR AND IS NOT TO BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FURTHER DISTRIBUTION, FORWARDING OR REPRODUCTION OF THIS EMAIL IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT. EXCEPT AS EXPRESSLY AUTHORIZED HEREIN, THE INFORMATION CONTAINED IN THIS EMAIL MESSAGE IS CONFIDENTIAL INFORMATION INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY TO WHOM IT IS ADDRESSED.

NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, EFFECTIVE FROM THE DATE OF COMMENCEMENT OF DISCUSSIONS, RECIPIENTS OF THIS OFFERING CIRCULAR AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF ANY SUCH RECIPIENT MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL INCOME TAX TREATMENT AND TAX STRUCTURE OF THIS OFFERING AND ALL MATERIALS OF ANY KIND, INCLUDING OPINIONS OR OTHER TAX ANALYSES, THAT ARE PROVIDED TO THE RECIPIENTS RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. HOWEVER, ANY SUCH INFORMATION RELATING TO THE TAX TREATMENT OR TAX STRUCTURE IS REQUIRED TO BE KEPT CONFIDENTIAL TO THE EXTENT NECESSARY TO COMPLY WITH ANY APPLICABLE FEDERAL OR STATE SECURITIES LAWS. FURTHERMORE, THIS AUTHORIZATION TO DISCLOSE SUCH TAX TREATMENT AND TAX STRUCTURE DOES NOT PERMIT DISCLOSURE OF INFORMATION IDENTIFYING THE ISSUER, THE CO-ISSUER, THE COLLATERAL MANAGER OR ANY OTHER PARTY TO THE TRANSACTION, THIS OFFERING OR THE PRICING (EXCEPT TO THE EXTENT PRICING IS RELEVANT TO TAX STRUCTURE OR TAX TREATMENT) OF THIS OFFERING.

U.S.$850,000,000 Class A-1 First Priority Senior Secured Floating Rate Delayed Draw Notes Due 2041
U.S.$68,500,000 Class A-2 Second Priority Senior Secured Floating Rate Notes Due 2041
U.S.$51,500,000 Class B Third Priority Senior Secured Floating Rate Notes Due 2041
U.S.$13,000,000 Class C Fourth Priority Mezzanine Secured Deferrable Floating Rate Notes Due 2041
U.S.$8,500,000 Class D Fifth Priority Mezzanine Secured Deferrable Floating Rate Notes Due 2041
15,500 Preference Shares with an Aggregate Liquidation Preference of U.S.$15,500,000

Backed by a Portfolio of Residential Mortgage-Backed Securities, Asset-Backed Securities and Related Synthetic Securities

Kleros Preferred Funding, Ltd.
Kleros Preferred Funding, LLC

Kleros Preferred Funding, Ltd., an exempted company incorporated under the laws of the Cayman Islands (the "Issuer"), and Kleros Preferred Funding, LLC, a Delaware limited liability company (the "Co-Issuer" and, together with the Issuer, the "Co-Issuers"), will issue U.S.$850,000,000 Class A-1First Priority Senior Secured Floating Rate Delayed Draw Notes due 2041 (the "Class A-1 Notes"), U.S.$68,500,000 Class A-2Second Priority Senior Secured Floating Rate Notes due 2041 (the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes"), U.S.$51,500,000 Class B Third Priority Senior Secured Floating Rate Notes due 2041 (the "Class B Notes"), U.S.$13,000,000 Class C Fourth Priority Mezzanine Secured Deferrable Floating Rate Notes due 2041 (the "Class C Notes") and U.S.$8,500,000 Class D Fifth Priority Mezzanine Secured Deferrable Floating Rate Notes due 2041 (the "Class D Notes" and, together with the Class A-1 Notes, the Class A-2 Notes, the Class B Notes and the Class C Notes, the "Notes"). Concurrently with the issuance of the Notes, the Issuer will issue 15,500 Preference Shares with an aggregate liquidation preference of U.S.$15,500,000 (the "Preference Shares," and together with the Notes, the "Offered Securities"). The Collateral securing the Notes will be managed by Strategos Capital Management, LLC, a Delaware limited liability company (the "Collateral Manager").

(continued on next page)

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") and "AAA" by each of Fitch Ratings ("Fitch") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's" and, together with Moody's and Fitch, the "Rating Agencies"), that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by each of Fitch and Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by each of Fitch and Standard & Poor's, that the Class C Notes be rated at least "A3" by Moody's and at least "A-" by each of Fitch and Standard & Poor's and that the Class D Notes be rated at least "Baa2" by Moody's and at least "BBB" by each of Fitch and Standard & Poor's. The Preference Shares will not be rated by any Rating Agency. The ratings assigned by Moody's to the Notes address the ultimate cash receipt of all required interest (including, in the case of the Class C Notes and the Class D Notes, interest on all Class C Deferred Interest Amounts and all Class D Deferred Interest Amounts, respectively) and principal payments on each such Class of Notes, in each case as provided in the governing documents, and are based on the expected loss posed to the Noteholders relative to the promise of receiving the present value of such payments. The ratings assigned by Standard & Poor's and Fitch to the Class A-1 Notes, the Class A-2 Notes and the Class B Notes address the timely payment of interest and ultimate payment of principal on each such Class of Notes at its Stated Maturity. The ratings assigned by Standard & Poor's and Fitch to the Class C Notes and the Class D Notes address the ultimate payment of interest (including interest on all Class C Deferred Interest Amounts and interest on all Class D Deferred Interest Amounts) and principal on each such Class of Notes at its Stated Maturity. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the Daily Official List. Application will be made to the Channel Islands Stock Exchange LBG (the "CISX") for the listing of and permission to deal in the Preference Shares. There can be no assurance that any listing will be obtained. No application will be made to list the Notes or the Preference Shares on any other exchange.

SEE "RISK FACTORS" IN THIS OFFERING CIRCULAR (THE "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, THE COLLATERAL MANAGER, THE HEDGE COUNTERPARTY, 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 TO QUALIFIED PURCHASERS WHO ARE ALSO (I) "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (II) IN THE CASE OF ORIGINAL PURCHASERS FROM THE ISSUER OR THE INITIAL PURCHASER, 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 UNDER THE SECURITIES ACT ("REGULATION S")) IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S AND, IN EACH CASE, IN ACCORDANCE WITH APPLICABLE LAWS. EACH ORIGINAL PURCHASER OF A PREFERENCE SHARE WILL BE REQUIRED IN AN INVESTOR APPLICATION FORM DELIVERED TO THE ISSUER (AN "INVESTOR APPLICATION FORM") TO MAKE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS, WARRANTIES 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 from time to time in individually negotiated transactions at varying prices to be determined at the time of sale by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS" or 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 June 3, 2005 (the "Closing Date"), in the case of the Notes and the Regulation S Global Preference Shares, through the facilities of The Depository Trust Company ("DTC") and in the case of the Definitive Preference Shares, at the offices of Merrill Lynch, Pierce, Fenner & Smith Incorporated, against payment therefor in immediately available funds.

Merrill Lynch & Co.

The date of this Offering Circular is June 2, 2005.

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The Notes will be issued and secured pursuant to an Indenture dated as of June 3, 2005 (the "Indenture") among the Issuer, the Co-Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Preference Shares are being issued pursuant to the Amended and Restated Memorandum and Articles of Association of the Issuer (the "Issuer Charter") and certain resolutions adopted at the meeting of the Issuer's board of directors on or before the Closing Date as reflected in the minutes thereof (the "Resolutions") and in accordance with a Preference Share Paying Agency Agreement, dated as of the Closing Date (the "Preference Share Paying Agency Agreement" and, together with the Issuer Charter and the Resolutions, the "Preference Share Documents") among the Issuer and Wells Fargo Bank, National Association, as preference share paying agent (in such capacity, the "Preference Share Paying Agent") and Walkers SPV Limited, as preference share registrar (in such capacity, the "Preference Share Registrar"). 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 London interbank offered rate in effect from time to time plus 0.25%, (b) holders of the Class A-2 Notes will be entitled to receive interest at a floating rate *per annum* equal to the applicable London interbank offered rate in effect from time to time plus 0.48%, (c) holders of the Class B Notes will be entitled to receive interest at a floating rate *per annum* equal to the applicable London interbank offered rate in effect from time to time plus 0.60%, (d) holders of the Class C Notes will be entitled to receive interest at a floating rate *per annum* equal to the applicable London interbank offered rate in effect from time to time plus 1.50%, and (e) holders of the Class D Notes will be entitled to receive interest at a floating rate *per annum* equal to the applicable London interbank offered rate in effect from time to time plus 2.65%. See "Description of the Notes—Priority of Payments."

Interest on the Notes will be payable in U.S. dollars quarterly in arrears on each January 6, April 6, July 6 and October 6, commencing October 6, 2005 (each, a "Distribution Date"); *provided* that (i) the final Distribution Date with respect to the Notes will be the Stated Maturity, (ii) if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day and (iii) the Accelerated Maturity Date will be a Distribution Date. Payments of principal of and interest and Commitment Fee 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 Class of the Notes is required to be paid by the Stated Maturity, unless redeemed or repaid prior thereto. See "Description of the Notes—Principal." Each of the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes is referred to herein as a "Class" of Notes.

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, all of the Class D 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 in the Priority of Payments with respect to the payment of principal during a Pro Rata Pay Period, the relative order of seniority of payment of each Class of Notes on each Distribution Date is as follows: *first*, Class A-1 Notes, including payment of Commitment Fee, *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Notes and, *fifth*, Class D Notes with (a) each Class of Notes (other than the Class D 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-2 Notes, Class B Notes, Class C Notes and Class D 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 D Notes are Subordinate to the Class A-1 Notes, Class A-2 Notes, Class B Notes and Class C Notes). No payment of interest on any Class of Notes will be made

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until all accrued and unpaid interest and (solely with respect to the Class A-1 Notes) Commitment Fee on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full. See "Description of the Notes—Priority of Payments." The assets of the Issuer, which will be pledged to secure the Notes and certain other obligations of the Issuer, will be comprised of (a) the Custodial Account, the Collateral Debt Securities and the Equity Securities, (b) the Interest Collection Account, the Uninvested Proceeds Account, the Principal Collection Account, the Payment Account, the Expense Account, the Interest Reserve Account, the Semi-Annual Interest Reserve Account, each Synthetic Security Counterparty Account, each Synthetic Security Issuer Account, each Hedge Counterparty Collateral Account, all funds and other property standing to the credit of each such account, Eligible Investments purchased with funds standing to the credit of each such account and all income from the investment of funds therein, (c) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, each Hedge Agreement and the Class A-1 Note Purchase Agreement, (d) all cash delivered to the Trustee and (e) all proceeds, accessions, profits, income benefits, substitutions and replacements, whether voluntary or involuntary, of and to any of the property of the Issuer described in the preceding clauses (collectively, the "Collateral"). The security interest granted under the Indenture in each Synthetic Security Counterparty Account is subject to and subordinate to the security interest and rights of the relevant Synthetic Security Counterparty in and to such Synthetic Security Counterparty Account.

The Notes are subject to redemption under the circumstances described under "Description of the Notes—Optional Redemption and Tax Redemption," "—Auction Call Redemption," "—Mandatory Redemption" and "—Priority of Payments." 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. Any Interest Proceeds permitted to be released from the lien of the Indenture on any Distribution Date in accordance with the Priority of Payments and paid to the Preference Share Paying Agent will, subject to the provisions of Cayman Islands law governing the declaration and payment of dividends, be distributed to the holders of the Preference Shares (the "Preference Shareholders") on such Distribution Date. Until the Notes have been paid in full, Principal Proceeds will not be available to make distributions in respect of the Preference Shares. Subject to provisions of Cayman Islands law governing the declaration and payment of dividends, 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 such Distribution Date. Distributions (other than certain liquidating distributions described herein) will be made in cash. 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 initially 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 outside the United States will be offered in reliance upon Regulation S and 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, DTC (or its nominee). Except in the limited circumstances described herein, certificated Notes will not be issued in exchange for beneficial interests in a Restricted Global Note or a Regulation S Global Note. The Preference Shares offered by the Issuer in the United States will be offered in reliance upon an exemption from the

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registration requirements of the Securities Act ("Restricted Definitive Preference Shares"). All Restricted Definitive Preference Shares will be represented by certificates in fully registered definitive form, registered in the name of the legal and beneficial owner thereof (or a nominee acting on behalf of the disclosed legal and beneficial owner thereof). The Preference Shares offered by the Issuer outside the United States will be offered in reliance upon Regulation S ("Regulation S Preference Shares"). Regulation S Preference Shares will be represented by either (i) one or more global preference shares ("Regulation S Global 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) initially for the accounts of Euroclear and/or Clearstream, Luxembourg or (ii) in the limited circumstances described herein, preference share certificates in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof ("Regulation S Definitive Preference Shares"). See "Description of the Notes—Form, Denomination, Registration and Transfer" and "Description of the Preference Shares—Form, Registration and Transfer." Application will be made to the Irish Stock Exchange for the Notes to be admitted to the Daily Official List of the Irish Stock Exchange. Application will be made to the CISX for the listing of and permission to deal in the Preference Shares. There can be no assurance that any listing will be obtained. No application will be made to list the Notes or the Preference Shares on any other exchange.

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Notice to New Hampshire Residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421B 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 421B 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 INITIAL PURCHASER, THE COLLATERAL MANAGER, THE HEDGE COUNTERPARTY 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 SECURITIES 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 OF ANY SECURITY OFFERED HEREBY 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 RESERVES 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 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

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NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, EFFECTIVE FROM THE DATE OF COMMENCEMENT OF DISCUSSIONS, RECIPIENTS OF THIS OFFERING CIRCULAR AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF ANY SUCH RECIPIENT MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL INCOME TAX TREATMENT AND TAX STRUCTURE OF THIS OFFERING AND ALL MATERIALS OF ANY KIND, INCLUDING OPINIONS OR OTHER TAX ANALYSES, THAT ARE PROVIDED TO THE RECIPIENTS RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. THIS AUTHORIZATION TO DISCLOSE SUCH TAX TREATMENT AND TAX STRUCTURE DOES NOT PERMIT DISCLOSURE OF INFORMATION IDENTIFYING THE ISSUER, THE CO-ISSUER, THE COLLATERAL MANAGER OR ANY OTHER PARTY TO THE TRANSACTION, THIS OFFERING OR THE PRICING (EXCEPT TO THE EXTENT PRICING IS RELEVANT TO TAX STRUCTURE OR TAX TREATMENT) OF THIS OFFERING.

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 SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREOF ("RULE 144A") OR ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ON ANY APPLICABLE STATE SECURITIES LAWS. 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 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 REQUIRED MINIMUM NUMBER (IN THE CASE

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OF THE PREFERENCE SHARES). THE OFFERED SECURITIES ARE SUBJECT TO FURTHER RESTRICTIONS ON TRANSFER. SEE "TRANSFER RESTRICTIONS."

NEITHER OF THE CO-ISSUERS NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE 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 THE 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 REGULATION S NOTE OR A RESTRICTED NOTE THAT IS 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 OR A REGULATION S GLOBAL NOTE 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, EUROCLEAR AND CLEARSTREAM, LUXEMBOURG). ANY TRANSFER OF PREFERENCE SHARES MAY BE EFFECTED ONLY ON THE PREFERENCE SHARE REGISTER MAINTAINED BY THE PREFERENCE SHARE REGISTRAR (THE "PREFERENCE SHARE REGISTRAR") PURSUANT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT.

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A CLASS A-1 NOTE, CLASS A-2 NOTE, CLASS B NOTE, CLASS C NOTE OR CLASS D NOTE OR AN INTEREST THEREIN WILL BE REQUIRED TO CERTIFY (OR IN CERTAIN CIRCUMSTANCES DEEMED TO REPRESENT AND WARRANT) EITHER THAT (A) IT IS NOT (AND FOR SO LONG AS IT HOLDS ANY CLASS A-1 NOTE, CLASS A-2 NOTE, CLASS B NOTE, CLASS C NOTE OR CLASS D NOTE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS ANY NOTE OR INTEREST THEREIN 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") 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 ("SIMILAR LAW") OR (B) ITS ACQUISITION AND HOLDING OF SUCH NOTE WILL NOT CONSTITUTE A NON-EXEMPT 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, WILL NOT RESULT IN A VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW).

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A PREFERENCE SHARE OR A BENEFICIAL INTEREST THEREIN WILL BE REQUIRED TO CERTIFY THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THE PREFERENCE SHARE OR AN INTEREST THEREIN WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS A PREFERENCE SHARE OR ANY INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR, AS THAT TERM IS DEFINED IN THE UNITED STATES DEPARTMENT OF LABOR PLAN ASSET REGULATION (29 C.F.R. SECTION 2510.3-101), EXCEPT THAT, ON THE CLOSING DATE, IT MAY BE A BENEFIT PLAN INVESTOR WHOSE INVESTMENT IN RESTRICTED DEFINITIVE PREFERENCE SHARES WILL NOT RESULT IN A

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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, WILL NOT RESULT IN A VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW) BUT ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, LESS THAN 25% OF THE VALUE OF THE PREFERENCE SHARES WOULD BE HELD BY BENEFIT PLAN INVESTORS (DETERMINED AFTER EXCLUDING PREFERENCE SHARES HELD BY CONTROLLING PERSONS).

FOR THESE REASONS, AMONG OTHERS, AN INVESTMENT IN THE OFFERED SECURITIES IS NOT SUITABLE FOR ALL INVESTORS AND IS APPROPRIATE ONLY FOR AN INVESTOR CAPABLE OF (A) ANALYZING AND ASSESSING THE RISKS ASSOCIATED WITH DEFAULTS, LOSSES AND RECOVERIES ON, REINVESTMENT OF PROCEEDS OF AND OTHER CHARACTERISTICS OF ASSETS SUCH AS THOSE INCLUDED IN THE COLLATERAL AND (B) BEARING SUCH RISKS AND THE FINANCIAL CONSEQUENCES THEREOF AS THEY RELATE TO AN INVESTMENT IN THE OFFERED SECURITIES.

IT IS EXPECTED THAT PROSPECTIVE INVESTORS INTERESTED IN PARTICIPATING IN THIS OFFERING ARE WILLING AND ABLE TO CONDUCT AN INDEPENDENT INVESTIGATION OF THE RISKS POSED BY AN INVESTMENT IN THE OFFERED SECURITIES.

THE OFFERED SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY 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 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 for the information contained in this document. To the best knowledge and belief of the Co-Issuers the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The 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 or completeness of the information contained herein (other than the information set forth herein under "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.

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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." Neither the Initial Purchaser, the Collateral Manager nor any of 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 or for the due execution, validity or enforceability of the Offered Securities, instruments or documents delivered in connection with the Offered Securities (other than in respect of its own obligations), or for the value or validity of any collateral or security interests pledged in connection therewith. The initial Hedge Counterparty and its guarantor do not assume any responsibility for the performance of any obligations of any other person described in this Offering Circular or for the due execution, validity or enforceability of the Offered Securities, instruments or documents delivered in connection with the Offered Securities (other than their own obligations under documents entered into by them) 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 and are available at the office of the Trustee. 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 McCann FitzGerald Listing Services Limited (in such capacity, the "Irish Listing Agent") if and for so long as any Offered Securities are listed on the Irish Stock Exchange. The Irish paying agent for the Notes will initially be Custom House Administration and Corporate Services Limited located in Dublin, Ireland (in such capacity, the "Irish Paying Agent"). The sponsor, or listing agent, for the Preference Shares on the Channel Islands Stock Exchange is Ogier Corporate Finance Limited. Ogier Corporate Finance Limited is acting for the Issuer and for no one else in connection with the listing of the Preference Shares, and will not be responsible for anyone other than the Issuer.

Neither the admission of the Preference Shares to the Official List of the Channel Islands Stock Exchange nor the approval of this Offering Circular pursuant to the listing requirements of the Channel Islands Stock Exchange shall constitute a warranty or representation by the Channel Islands Stock Exchange as to the competence of the service providers to or any other party connected with the Co-Issuers, the adequacy and accuracy of information contained in this Offering Circular or the suitability of the Co-Issuers for investment or any other purpose.

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.

Each purchaser (an "Original Purchaser") from the Issuer or the Initial Purchaser in the initial distribution of an Offered Security offered and sold in the United States will be required (or, in the case of the Notes, deemed) to represent to the Initial Purchaser and the Co-Issuers (or, in the case of the Preference Shares, the Issuer) that it is (a) either (i) a "Qualified Institutional Buyer" (as defined in Rule 144A under the Securities Act) or (ii) an Accredited Investor within the meaning of Rule 501(a) (an "Accredited Investor") under the Securities Act and (b) in each case, a Qualified Purchaser 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). Each Original Purchaser of an Offered Security offered and sold

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in reliance on Regulation S will be required (or, in the case of the Notes, deemed) to represent to the Initial Purchaser and the Co-Issuers (or, in the case of the Preference Shares, the Issuer) that it is not a U.S. person, as such term is 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 Offered Securities will also be required (or in certain circumstances 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 Preference Share, 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 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. Each Original Purchaser of an Offered Security that is a U.S. Person will be required (or in certain circumstances deemed) to represent that it or the account for which it is purchasing such Offered Security is a Qualified Purchaser. 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 of the Investment Company Act or (iii) a company beneficially owned exclusively by one or more such "qualified purchasers" and/or "knowledgeable employees." 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, it 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 Offered Securities with liquidity of investment or that it will continue for the life of such Offered Securities.

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 OR ANY OF ITS AFFILIATES. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN OFFERED SECURITIES FOR AN INDEFINITE PERIOD OF TIME.

NONE OF THE CO-ISSUERS, THE INITIAL PURCHASER, THE COLLATERAL MANAGER, ANY HEDGE COUNTERPARTY OR 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

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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 the 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.

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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 50,000 EUROS 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

PURSUANT TO S. 194 OF THE COMPANIES LAW (2004 REVISION) OF THE CAYMAN ISLANDS, THE OFFERED SECURITIES MAY NOT BE OFFERED TO MEMBERS OF THE PUBLIC IN 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 PURSUANCE THEREOF.

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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 HAVE NOT BEEN AND WILL NOT BE OFFERED, MARKETED, DISTRIBUTED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY IN THE REPUBLIC OF FRANCE OR TO THE PUBLIC IN THE REPUBLIC OF FRANCE OTHER THAN TO QUALIFIED INVESTORS (INVESTISSEURS QUALIFIES) ACTING FOR THEIR OWN ACCOUNT AND/OR A LIMITED CIRCLE OF INVESTORS (CERCLE RESTREINT D'INVESTISSEURS), ALL AS DEFINED IN AND IN ACCORDANCE WITH ARTICLE L. 411-2 OF THE FRENCH CODE MONÉTAIRE ET FINANCIER AND DÉCRET NO. 98-880 DATED 1 OCTOBER 1998.

THE OFFERED SECURITIES WILL NOT BE SUBJECT TO ANY APPROVAL BY OR REGISTRATION (VISA) WITH THE FRENCH AUTORITÉ DES MARCHÉS FINANCIERS.

THE DIRECT OR INDIRECT OFFER, MARKETING, DISTRIBUTION, SALE, RE-SALE OR OTHER TRANSFER OF THE OFFERED SECURITIES TO THE PUBLIC IN THE REPUBLIC OF FRANCE MUST COMPLY WITH ARTICLES L.411-1, L.411-2, L.412-1 AND L.621-8 OF THE FRENCH CODE MONÉTAIRE ET FINANCIER.

IN RESPECT OF OFFERED SECURITIES OFFERED, MARKETED, DISTRIBUTED SOLD, RESOLD OR OTHERWISE TRANSFERRED TO A LIMITED CIRCLE OF MORE THAN 100 INVESTORS (CERCLE RESTREINT D'INVESTISSEURS) IN THE REPUBLIC OF FRANCE, EACH INVESTOR IN SUCH LIMITED CIRCLE OF INVESTORS (CERCLE RESTREINT D'INVESTISSEURS) MUST CERTIFY HIS/HER PERSONAL, PROFESSIONAL OR FAMILY RELATIONSHIP WITH ONE OF THE DIRECTORS.

NOTICE TO RESIDENTS OF GERMANY

THE OFFERED SECURITIES WILL NOT BE OFFERED OR SOLD IN THE FEDERAL REPUBLIC OF GERMANY OTHER THAN IN ACCORDANCE WITH THE GERMAN SECURITIES SALES PROSPECTUS ACT OF DECEMBER 13, 1990 OF THE FEDERAL REPUBLIC OF GERMANY, AS AMENDED (*WERTPAPIERVERKAUFSPROSPEKTGESETZ*), THE GERMAN INVESTMENT ACT OF DECEMBER 15, 2003 OF THE FEDERAL REPUBLIC OF GERMANY, AS AMENDED (*INVESTMENTGESETZ*) AND ANY OTHER LEGAL OR REGULATORY REQUIREMENTS

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APPLICABLE IN THE FEDERAL REPUBLIC OF GERMANY GOVERNING THE ISSUE, OFFER AND SALE OF SECURITIES. NOTWITHSTANDING ANY REQUEST OF A GERMAN INVESTOR THEREFOR, THE ISSUER WILL NOT BE IN A POSITION TO, AND WILL NOT, COMPLY WITH ANY CALCULATION AND INFORMATION REQUIREMENTS SET FORTH IN § 5 THE *INVESTMENTSTEUERGESETZ* (THE "GERMAN INVESTMENT TAX ACT") FOR GERMAN TAX PURPOSES. IN THIS REGARD, PROSPECTIVE INVESTORS MUST REVIEW "RISK FACTORS-APPLICATION OF THE GERMAN INVESTMENT ACT AND THE GERMAN INVESTMENT TAX ACT." ALL PROSPECTIVE GERMAN INVESTORS ARE URGED TO SEEK INDEPENDENT TAX ADVICE. THE INITIAL PURCHASER DOES NOT GIVE TAX ADVICE.

NOTICE TO RESIDENTS OF HONG KONG

NO PERSON MAY OFFER OR SELL ANY OFFERED SECURITIES IN HONG KONG BY MEANS OF THIS OFFERING CIRCULAR OR ANY OTHER DOCUMENT OTHERWISE THAN TO PERSONS WHOSE ORDINARY BUSINESS IT IS TO BUY OR SELL SHARES OR 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 (CHAPTER 32 OF THE LAWS OF HONG KONG). UNLESS IT IS A PERSON WHO IS PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG, NO PERSON MAY IN HONG KONG ISSUE, OR HAVE IN ITS POSSESSION FOR THE PURPOSES OF ISSUE, THIS OFFERING CIRCULAR OR ANY OTHER ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE OFFERED SECURITIES OTHER THAN (I) IN RESPECT OF OFFERED SECURITIES TO BE DISPOSED OF TO PERSONS OUTSIDE HONG KONG OR ONLY TO PERSONS WHOSE BUSINESS INVOLVES THE ACQUISITION, DISPOSAL OR HOLDING OF SECURITIES, WHETHER AS PRINCIPAL OR AGENT, OR (II) IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE AN INVITATION TO THE PUBLIC WITHIN THE MEANING OF THE PROTECTION OF INVESTORS ORDINANCE (CHAPTER 335 OF THE LAWS OF HONG KONG).

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.

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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 SINGAPORE

THIS OFFERING CIRCULAR WILL, PRIOR TO ANY SALE OF SECURITIES PURSUANT TO THE PROVISIONS OF SECTION 106D OF THE COMPANIES ACT (CAP. 50), BE LODGED, PURSUANT TO SAID SECTION 106D, WITH THE REGISTRAR OF COMPANIES IN SINGAPORE, WHICH TAKES NO RESPONSIBILITY FOR ITS CONTENTS, BUT HAS NOT BEEN AND WILL NOT BE REGISTERED AS A PROSPECTUS WITH THE REGISTRAR OF COMPANIES IN SINGAPORE. ACCORDINGLY, THE OFFERED SECURITIES MAY NOT BE OFFERED, AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING DOCUMENT OR MATERIAL RELATING TO THE OFFERED SECURITIES MAY BE CIRCULATED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO THE PUBLIC OR ANY MEMBER OF THE PUBLIC IN SINGAPORE OTHER THAN TO INSTITUTIONAL INVESTORS OR OTHER PERSONS OF THE KIND SPECIFIED IN SECTION 106C AND SECTION 106D OF THE COMPANIES ACT OR ANY OTHER APPLICABLE EXEMPTION INVOKED UNDER DIVISION 5A OF PART IV OF THE COMPANIES ACT. THE FIRST SALE OF SECURITIES ACQUIRED UNDER A SECTION 106C OR SECTION 106D EXEMPTION IS SUBJECT TO THE PROVISIONS OF SECTION 106E OF THE COMPANIES ACT.

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.

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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 an Offered Security, 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 exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. Such information may be obtained from (a) in the case of the Notes, the Trustee or (b) in the case of the Preference Shares, the Preference Share Paying Agent, in each case, as directed by the Issuer. 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 specified herein. 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

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Collateral Debt Securities, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Collateral Debt Securities (particularly prior to the Ramp-Up Completion Date), available funds caps or other caps on the interest rate payable on the Collateral Debt Securities, timing mismatches on the reset of the interest rates between the Collateral Debt Securities, and the Notes, defaults under Collateral Debt Securities and the effectiveness of the initial Hedge Agreement, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Initial Purchaser, the Initial Hedge Counterparty 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 Trustee, the Collateral Manager, the Initial Purchaser, the Initial Hedge Counterparty 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.

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THE OFFERING

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.$850,000,000 maximum aggregate principal amount Class A-1 First Priority Senior Secured Floating Rate Delayed Draw Notes due 2041 (the "Class A-1 Notes").

U.S.$68,500,000 aggregate principal amount Class A-2 Second Priority Senior Secured Floating Rate Notes due 2041 (the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes").

U.S.$51,500,000 aggregate principal amount Class B Third Priority Senior Secured Floating Rate Notes due 2041 (the "Class B Notes").

U.S.$13,000,000 aggregate principal amount Class C Fourth Priority Mezzanine Secured Deferrable Floating Rate Notes due 2041 (the "Class C Notes").

U.S.$8,500,000 aggregate principal amount Class D Fifth Priority Mezzanine Secured Deferrable Floating Rate Notes due 2041 (the "Class D Notes" and, together with the Class A-1 Notes, Class A-2 Notes, Class B Notes and Class C Notes, the "Notes").

15,500 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share (the "Preference Shares" and, together with the Notes, the "Offered Securities").

Each of the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes is referred to herein as a "Class" of Notes.

The Notes will be issued and secured pursuant to an Indenture dated as of the Closing Date (the "Indenture"), among the Issuer, the Co-Issuer and Wells Fargo Bank, National Association, as trustee (in such capacity, together with its successors in such capacity, the "Trustee"). Certain Synthetic Security Counterparties, the Collateral Manager and each Preference Shareholder will be express third party beneficiaries 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, each Hedge Counterparty, certain Synthetic Security Counterparties, the Collateral Manager, the Collateral Administrator and the Trustee (collectively, the "Secured

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Parties"). See "Description of the Notes—Status and Security."

All of the Notes and the Preference Shares will be issued on the Closing Date. U.S.$740,000,000 of the principal amount of the Class A-1 Notes will be advanced on the Closing Date. Further advances may be made under the Class A-1 Notes after the Closing Date as provided in the Class A-1 Note Purchase Agreement, subject to the conditions set forth therein.

The Preference Shares will be issued pursuant to the Amended and Restated Memorandum and Articles of Association of the Issuer (the "Issuer Charter") and certain resolutions adopted at the meeting of the Issuer's board of directors on or before the Closing Date as reflected in the minutes thereof (the "Resolutions") and in accordance with a Preference Share Paying Agency Agreement, dated as of the Closing Date (the "Preference Share Paying Agency Agreement" and, together with the Issuer Charter and the Resolutions, the "Preference Share Documents") among the Issuer, Wells Fargo Bank, National Association, as preference share paying agent (in such capacity, the "Preference Share Paying Agent") and Walkers SPV Limited, as preference share registrar (in such capacity, the "Preference Share Registrar").

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, all of the Class D 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 in the Priority of Payments with respect to the payment of principal during a Pro Rata Pay Period, the relative order of seniority of payment of each Class of Notes on each Distribution Date is as follows: *first*, Class A-1 Notes, including payment of Commitment Fee, *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Notes and, *fifth*, Class D Notes, with (a) each Class of Notes (other than the Class D 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 and (with respect to the Class A-1 Notes) Commitment Fee on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full. Except as otherwise described herein, during a Sequential Pay Period, no payment of principal of any Class of Notes will be made until all principal of, and accrued and unpaid interest and (with

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respect to the Class A-1 Notes) Commitment Fee on, the Notes of each Class that is Senior to such Class and that remain outstanding have been paid in full. See "Description of the Notes—Priority of Payments."

Drawdown of the Class A-1 Notes:

Pursuant to a Class A-1 Note Purchase Agreement dated as of the Closing Date (the "Class A-1 Note Purchase Agreement") among the Issuer, the Co-Issuer, the Trustee and the holders from time to time of the Class A-1 Notes, the holders of the Class A-1 Notes (or the Liquidity Provider(s) with respect to any such holder) will commit to make monthly advances under the Class A-1 Notes, on and subject to the terms and conditions specified therein; provided that the aggregate principal amount advanced under the Class A-1 Notes will not exceed U.S.$850,000,000 (including amounts advanced on the Closing Date). Subject to compliance with certain borrowing conditions specified in the Class A-1 Note Purchase Agreement and described herein under "Description of the Notes—Drawdown—Class A-1 Notes," the Issuer may borrow amounts under the Class A-1 Notes during the Commitment Period (as defined herein). The aggregate principal amount that may be borrowed on any day (other than any borrowing of the entire unused amount of the Commitments under the Class A-1 Note Purchase Agreement) will be an integral multiple of U.S.$1,000 and at least U.S.$5,000,000. See "Description of the Notes—Drawdown—Class A-1 Notes."

Prior to the Commitment Period Termination Date, each holder of Class A-1 Notes (if it has an unfunded commitment) will be required to satisfy the Rating Criteria. If any such holder of Class A-1 Notes fails at any time prior to the Commitment Period Termination Date to comply with the Rating Criteria, the Issuer will have the right under the Class A-1 Note Purchase Agreement to, and will be obligated under the Indenture to, replace such holder with another entity that meets the Rating Criteria (by requiring the replaced holder to transfer all of its rights and obligations in respect of the Class A-1 Notes to the transferee entity), unless such holder funds its commitment. The "Rating Criteria" will be satisfied on any date with respect to any holder of Class A-1 Notes if (a) the short-term debt, deposit or similar obligations of such holder (or the obligations of the guarantor of such holder's obligations) are on such date rated "P-1" by Moody's, at least "A-1" by Standard & Poor's and at least "F1" by Fitch or (b) such holder is then entitled under a Liquidity Facility to borrow loans from, or sell Class A-1 Notes to, one or more financial institutions (each, a "Liquidity Provider") so long as the short-term debt, deposit or similar obligations of each such Liquidity Provider are on such date rated "P-1" by Moody's, at least "A-1" by Standard & Poor's and at least "F1" by Fitch. A "Liquidity Facility" is a liquidity facility agreement providing for the several commitments of the Liquidity Providers party thereto to make loans to, or purchase Class A-1 Notes from, a holder of Class A-1 Notes in an aggregate principal

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amount at any one time outstanding equal to the aggregate undrawn principal amount of Class A-1 Notes held by such holder. The purchase of Class A-1 Notes (whether in connection with the initial placement or in a subsequent transfer) by any purchaser who does not satisfy the Rating Criteria set forth in clause (a) of the definition thereof at the time of such purchase (if such purchaser will have an unfunded commitment) but who is then entitled to the benefits of a Liquidity Facility described in clause (b) of such definition will be subject to the requirement that each Rating Agency confirm that the acquisition of Class A-1 Notes by such purchaser will not result in a downgrade or withdrawal of its then current rating, if any, of any Class of Notes.

The Co-Issuers:

Kleros Preferred Funding, Ltd. (the "Issuer") is an exempted company incorporated under Cayman Islands law pursuant to the Issuer Charter. The entire share capital of the Issuer consists of (a) 1,000 ordinary shares, par value U.S.$1.00 per share, each of 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, and (b) 15,500 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share. The Indenture and Issuer Charter will provide that the activities of the Issuer are limited to (1) acquiring, disposing of, and investing in Collateral Debt Securities and Equity Securities acquired by the Issuer in the limited circumstances described herein and Eligible Investments, (2) entering into and performing its obligations under the Indenture, the Collateral Management Agreement, the Administration Agreement, the Collateral Administration Agreement, the Class A-1 Note Purchase Agreement, the Purchase Agreement, the Synthetic Securities, the Hedge Agreements 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 the limited liability company interests of the Co-Issuer and (6) other activities incidental to the foregoing.

Kleros Preferred Funding, LLC, a Delaware limited liability company (the "Co-Issuer" and, together with the Issuer, the "Co-Issuers"), was formed for the sole purpose of co-issuing the Notes.

The entire undivided limited liability company interest of the Co-Issuer is owned by the Issuer.

The Issuer will not have any material assets other than the Collateral Debt Securities, Equity Securities and Eligible Investments, and its rights under the Class A-1 Note Purchase Agreement, the Hedge Agreement and under certain other agreements entered into as described herein.

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The Co-Issuer will be capitalized only to the extent of its U.S.$1,000 undivided limited liability company interest, will have no assets, other than the proceeds from the sale of its interests to 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 and will have no claim against the Issuer in respect of the Collateral Debt Securities or otherwise.

The Collateral Manager: Certain advisory, consulting, administrative and related functions with respect to the Collateral Debt Securities will be performed by Strategos Capital Management, LLC ("Strategos"), as collateral manager (in such capacity, together with its successors in interest, the "Collateral Manager"), pursuant to a collateral management agreement entered into between the Issuer and the Collateral Manager on the Closing Date (the "Collateral Management Agreement"). Strategos is an Affiliate of Cohen Bros. & Company, LLC, a broker dealer that focuses on the financial services sector. Under the Collateral Management Agreement, the Collateral Manager will manage the acquisition and disposition of the Collateral Debt Securities, including exercising rights and remedies associated with the Collateral Debt Securities, disposing of the Collateral Debt Securities and certain related functions. The Collateral Manager has advised the Issuer that it or one of its Affiliates will purchase up to 25% of the Preference Shares on the Closing Date. See "Collateral Manager—Strategos Capital Management, LLC."

Use of Proceeds: The gross proceeds received from the issuance and sale of the Offered Securities will be approximately U.S.$1,007,000,000 (after giving effect to the maximum amount of Borrowings that may be made under the Class A-1 Notes through the Ramp-Up Completion Date). The net proceeds from the issuance and sale of the Offered Securities, together with the Up-Front Payment to be made to the Issuer under the Hedge Agreement, are expected to be approximately U.S.$1,005,200,000 (after giving effect to the maximum amount of Borrowings that may be made under the Class A-1 Notes through the Ramp-Up Completion Date), which reflects the payment from such gross proceeds of organizational and structuring fees, a fee payable to the Collateral Manager (for collateral management services performed prior to the Closing Date), the payment made by the Issuer to the Hedge Counterparty on the Closing Date, and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Manager and the Initial Purchaser), the expenses, fees and commissions incurred in connection with the acquisition of the Collateral Debt Securities for inclusion in the Collateral on or prior to the Closing Date, the expenses of offering the Offered Securities (including fees payable to the Initial Purchaser in connection with the offering of the Offered Securities) and the initial deposits into the Expense Account and the Interest Reserve Account. Such net proceeds will be used by the Issuer to

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purchase a diversified portfolio of interests in (a) Asset-Backed Securities and (b) Synthetic Securities that, in each case, satisfy the investment criteria described herein. Pending the purchase of such portfolio, such net proceeds may be temporarily invested in Eligible Investments. 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 0.25%. The Class A-2 Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 0.48%. The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 0.60%. The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 1.50%. The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 2.65%. 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 Aggregate Outstanding Amount (or, in the case of a Borrowing with respect to the Class A-1 Notes, the amount of such Borrowing) of the Notes (i) in the case of the initial Interest Period, for the period from and including the Closing Date (or, in the case of a Borrowing with respect to the Class A-1 Notes, the period from and including the Borrowing Date of such Borrowing) to but excluding the first applicable Distribution Date and (ii) thereafter, for the period from and including the Distribution Date immediately following the immediately preceding Interest Period, to but excluding the next succeeding Distribution 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. See "Description of the Notes—Interest."

Furthermore, so long as any Class A-1 Notes, Class A-2 Notes or Class B Notes are outstanding, if either Class A/B Coverage Test is not satisfied on any Determination Date related to a Distribution Date, then (i) Interest Proceeds that would otherwise be used to make payments on such Distribution Date in respect of interest on any Class of Notes Subordinate to such Class A-1 Notes, Class A-2 Notes or Class B Notes, certain fees and expenses and distributions on the Preference Shares will be used instead to redeem first, the Class A-1 Notes, second, the Class A-2 Notes and third, the Class B Notes, until each Class A/B Coverage Test is satisfied and (ii) if Interest Proceeds are not sufficient to make such required redemption, then Principal Proceeds will be used to redeem first, the Class A-1 Notes, *second*, the Class A-2 Notes and third, the Class B Notes, until each Class A/B Coverage Test is satisfied.

Additionally, so long as any Class of Notes is outstanding, if either Class C/D Coverage Test is not satisfied on any Determination Date related to a Distribution Date, then (i) Interest Proceeds that would

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otherwise be used to make payments on such Distribution Date in respect of certain fees and expenses and distributions on the Preference Shares will be used instead to redeem principal of the Class C Notes and the Class D Notes, *pro rata*, and (ii) if Interest Proceeds are not sufficient to make such required redemption, then Principal Proceeds will be used to redeem principal of *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third* the Class B Notes, *fourth*, the C Notes and fifth, the Class D Notes, until each Class C/D Coverage Test has been satisfied.

See "Description of the Notes—Priority of Payments."

So long as any Class A-1 Notes, Class A-2 Notes or Class B Notes are outstanding (or the Commitment Period Termination Date has not occurred), any interest due on the Class C Notes which is not paid as a result of the operation of the Priority of Payments on any Distribution Date (any such interest, "Class C Deferred Interest Amount") shall be deferred and added to the Aggregate Outstanding Amount of the Class C Notes, and shall not be considered "due and payable" until the Distribution Date on which funds are available to pay such Class C Deferred Interest Amount in accordance with the Priority of Payments; provided that no accrued interest on the Class C Notes shall become Class C Deferred Interest Amount unless Class A-1 Notes, Class A-2 Notes or Class B Notes are then outstanding or the Commitment Period Termination Date has not occurred.

So long as any Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes are outstanding (or the Commitment Period Termination Date has not occurred), any interest due on the Class D Notes which is not paid as a result of the operation of the Priority of Payments on any Distribution Date (any such interest, "Class D Deferred Interest Amount") shall be deferred and added to the Aggregate Outstanding Amount of the Class D Notes, and shall not be considered "due and payable" until the Distribution Date on which funds are available to pay such Class D Deferred Interest Amount in accordance with the Priority of Payments; provided that no accrued interest on the Class D Notes shall become Class D Deferred Interest Amount unless Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes are then outstanding or the Commitment Period Termination Date has not occurred.

Commitment Fee on the Class A-1 Notes:

A commitment fee ("Commitment Fee") will accrue on the undrawn principal amount of the Class A-1 Notes for each day from and including the Closing Date to but excluding the date the Aggregate Undrawn Amount of the Class A-1 Notes is reduced to zero, at a rate *per annum* equal to 0.05%. Such Commitment Fee will be payable quarterly in arrears on each Distribution Date and will rank *pari passu* with the payment of interest on the Class A-1 Notes. The Commitment Fee will be computed on the basis of a 360-day year and the actual number of days elapsed. No Class of

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Notes other than the Class A-1 Notes will be entitled to a commitment fee. See "Description of the Notes—Commitment Fee on Class A-1 Notes."

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, but only after the payment of interest on the Notes, Commitment Fee and certain other amounts in accordance with the Priority of Payments.

Any Interest Proceeds permitted to be released from the lien of the Indenture on any Distribution Date in accordance with the Priority of Payments and paid to the Preference Share Paying Agent will be distributed to the Preference Shareholders, subject to provisions of The Companies Law (2004 Revision) of the Cayman Islands governing the declaration and payment of dividends (as described herein), on such 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.

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 and paid to the Preference Share Paying Agent for distribution to the Preference Shareholders, subject to provisions of The Companies Law (2004 Revision) of the Cayman Islands governing the declaration and payment of dividends, on a Distribution Date. Distributions will be made in cash (except certain liquidating distributions). See "Description of the Preference Shares—Distributions."

If any Coverage Test is not satisfied on the Determination Date related to any Distribution Date, then Interest Proceeds that would otherwise be distributed to Preference Shareholders on the related Distribution Date (subject to the payment of certain other amounts prior thereto) may be used instead to repay principal of the Notes to the extent and as described herein.

If a Rating Confirmation Failure occurs, Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities) and, to the extent that such Uninvested Proceeds are insufficient to redeem the Notes to the extent necessary to obtain a Rating Confirmation, Interest Proceeds and, to the extent that Interest Proceeds are insufficient, Principal Proceeds (subject to the payment of certain other amounts prior thereto) will be applied to the payment of principal of *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes

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and, *fifth*, the Class D Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation. See "Description of the Notes—Priority of Payments."

Average Life and Duration: The stated maturity of the Notes is the Distribution Date in October 2041 (with respect to each Class of Notes, the "Stated Maturity"). Each Class of Notes will mature at the applicable Stated Maturity unless redeemed or repaid prior thereto. The average life of each Class of Notes and the duration of the Preference Shares will be less than the number of years until the Stated Maturity of the Notes. See "Maturity, Prepayment and Yield Considerations" and "Risk Factors—Projections, Forecasts and Estimates."

Principal Repayment: All Principal Proceeds (including all Sale Proceeds) will be applied on each Distribution Date, after paying other amounts in accordance with the Priority of Payments, to pay principal of each Class of Notes. The amount and frequency of principal payments on a Class of Notes will depend upon, among other things, the amount and frequency of payments of principal and interest received with respect to the Collateral Debt Securities.

Payments of principal may be made on the Notes only in the following circumstances (subject, in each case, to the Priority of Payments): (a) in connection with an Optional Redemption, Tax Redemption, Auction Call Redemption or Accelerated Maturity Date, (b) on any Distribution Date from Interest Proceeds (and then Principal Proceeds, if needed), upon the failure of the Issuer to meet any Coverage Test as of the related Determination Date, (c) on the event of a Rating Confirmation Failure, (d) to pay any Class C Deferred Interest Amount and Class D Deferred Interest Amount and (e) on each Distribution Date from Principal Proceeds in accordance with the Priority of Payments to pay principal of each Class of Notes.

On any Distribution Date for which the Determination Date occurs during a Sequential Pay Period, principal of the Notes will be paid in direct order of seniority, with the principal of Class A-1 Notes being paid prior to the payment of principal of Class A-2 Notes, the principal of Class A-2 Notes being paid prior to the payment of the principal of Class B Notes, the principal of Class B Notes being paid prior to the payment of the principal of Class C Notes and the principal of Class C Notes being paid prior to the payment of the principal of Class D Notes; *provided*, *however*, that to cure a breach of a Class C/D Coverage Test, Interest Proceeds will be applied to pay principal of only the Class C Notes and the Class D Notes, on a *pro rata* basis.

On any Distribution Date for which the Determination Date occurs during a Pro Rata Pay Period, Principal Proceeds will be applied in accordance with the Priority of Payments, to pay (i) *first*, *pro rata*,

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the principal amount of the Class A-1 Notes, Class A-2 Notes and the Class B Notes in an aggregate amount up to the Class A/B *Pro Rata* Principal Payment Cap, (ii) second, the principal amount of the Class C Notes in an amount up to the Class C *Pro Rata* Principal Payment Cap, and (iii) third, the principal amount of the Class D Notes.

A Sequential Pay Period will commence on the earliest to occur of (i) any Determination Date on which the Issuer does not satisfy any applicable Coverage Test, (ii) the first Determination Date on which an Event of Default has occurred and is continuing, (iii) the first Measurement Date on which the Class A Sequential Pay Test is not satisfied, (iv) the first date on which the Aggregate Principal Balance of the Collateral Debt Securities has fallen below 50% of the Net Outstanding Portfolio Collateral Balance on the Ramp-Up Completion Date and (v) the first date on which the rating of any outstanding Class of Notes by Standard & Poor's has been reduced or withdrawn. If a Sequential Pay Period has commenced as a result of a breach of a Coverage Test, such Sequential Pay Period shall cease on the first Measurement Date that such Coverage Test has been cured, and a Pro Rata Pay Period shall commence on the immediately succeeding Distribution Date. If the Sequential Pay Period commences for any other reason, a Pro Rata Pay Period may not commence on any future Distribution Date.

To the extent necessary to cure a breach of a Coverage Test (i) in the case of the breach of a Class C/D Coverage Test, Interest Proceeds will be applied to pay principal of only the Class C Notes and the Class D Notes, *pro rata*, and, if necessary to cure such breach, Principal Proceeds will be applied to pay principal of the Notes in direct order of seniority and (ii) in the case of a breach of a Class A/B Coverage Test, Interest Proceeds (and if necessary, Principal Proceeds) will be applied to pay principal of the Class A-1 Notes, the Class A-2 Notes and the Class B Notes, in direct order of seniority.

See "Description of the Notes—Priority of Payments—Principal Proceeds," "—Priority of Payments—Interest Proceeds," "—Optional Redemption and Tax Redemption," "—Mandatory Redemption" and "—Auction Call Redemption."

Mandatory Redemption: The Notes will, 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 from Interest Proceeds (and then Principal Proceeds, if needed) to the extent necessary to cause each applicable Coverage Test to be satisfied. Any such redemption will be effected as described under "Description of the Notes—Priority of Payments."

In the event of a Rating Confirmation Failure, as described under

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"Description of the Notes—Mandatory Redemption," on the first Distribution Date following such Rating Confirmation Failure, the Issuer will be required to apply all Uninvested Proceeds (other than those required to complete purchases of Collateral Debt Securities) to redeem Notes in direct order of seniority. If such Uninvested Proceeds are insufficient to redeem the Notes to the extent necessary in order to obtain the Rating Confirmation, on such Distribution Date and on each Distribution Date thereafter, the Issuer will be required to apply Interest Proceeds and, to the extent that Interest Proceeds are insufficient, Principal Proceeds to the repayment of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes and, *fifth*, the Class D Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation.

Optional Redemption and Tax Redemption of the Notes:

Subject to certain conditions described herein, on the Distribution Date occurring in July 2009 or on any Distribution Date thereafter, the Issuer may redeem the Notes (such redemption, an "Optional Redemption"), in whole but not in part, at the direction of a Special-Majority-in-Interest of Preference Shareholders at the applicable Redemption Price therefor. See "Description of the Notes—Optional Redemption and Tax Redemption."

In addition, upon the occurrence of a Tax Event, the Issuer may redeem, subject to the satisfaction of the Tax Materiality Condition, the Notes (such redemption, a "Tax Redemption") on any Distribution Date, in whole but not in part, at the applicable Redemption Price therefor (i) at the direction of the holders of 66⅔% in Aggregate Outstanding 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 due and payable to such Class on any Distribution Date (each such Class, an "Affected Class") or (ii) at the direction of a Special-Majority-in-Interest of Preference Shareholders.

No Optional Redemption or Tax Redemption may be effected, however, unless Sale Proceeds, together with all cash and Eligible Investments maturing on or prior to the scheduled Redemption Date credited to the Interest Collection Account, the Principal Collection Account, the Uninvested Proceeds Account, the Interest Reserve Account, the Expense Account, the Semi-Annual Interest Reserve Account, the Payment Account and any amounts in the Synthetic Security Counterparty Account in excess of any termination payment payable to the Synthetic Security Counterparty ("Available Redemption Funds") are at least equal to an amount sufficient to pay (in accordance with the Priority of Payments) the Total Senior Redemption Amount.

Auction Call Redemption:

If the Notes have not been redeemed in full prior to the Distribution Date occurring in July 2013, then an auction of the Collateral Debt Securities will be conducted by the Trustee on behalf of the Issuer,

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	and provided that certain conditions are satisfied, the Collateral Debt Securities will be sold and the Notes will be redeemed on such Distribution Date. If such conditions are not satisfied and the auction is not successfully conducted on such Distribution Date, the Trustee will conduct auctions on a quarterly basis until the Notes are redeemed in full. See "Description of the Notes—Auction Call Redemption."
Optional Redemption of the Preference Shares:	Subject to certain conditions described herein, 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, at the redemption price therefor. See "Description of the Preference Shares—Optional Redemption."
Security for the Notes:	Pursuant to the Indenture, the Notes (together with the Issuer's obligations to any Hedge Counterparty under the Hedge Agreement, to certain of the Synthetic Security Counterparties under the Synthetic Securities, to the Collateral Manager under the Collateral Management Agreement and to the Trustee under the Indenture), will be secured by: (a) the Custodial Account, the Collateral Debt Securities and the Equity Securities, (b) the Interest Collection Account, the Uninvested Proceeds Account, the Principal Collection Account, the Payment Account, the Expense Account, the Interest Reserve Account, the Semi-Annual Interest Reserve Account, each Synthetic Security Counterparty Account, each Synthetic Security Issuer Account, the Hedge Counterparty Collateral Account, all funds and other property standing to the credit of each such account, Eligible Investments purchased with funds standing to the credit of each such account and all income from the investment of funds therein, (c) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Class A-1 Note Purchase Agreement and the Hedge Agreement, (d) all cash delivered to the Trustee, and (e) all proceeds, accessions, profits, income benefits, substitutions and replacements, whether voluntary or involuntary, of and to any of the property of the Issuer described in the preceding clauses (collectively, the "Collateral"); *provided* that each Synthetic Security Counterparty Account (and all funds and other property credited thereto) will also be held by the Trustee for the benefit of the related Synthetic Security Counterparty. In the event of any realization on the Collateral, proceeds will be applied in accordance with the respective priorities established by the Priority of Payments. The security interest granted under the Indenture in each Synthetic Security Counterparty Account (and all funds and other property credited thereto), for the benefit of the Secured Parties, is subject to, and subordinate to the security interest and rights of, the relevant Synthetic Security Counterparty in and to such Synthetic Security Counterparty Account.

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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 (together with certain other amounts) of not less than U.S.$850,000,000. Schedule C to this Offering Circular identifies the Collateral Debt Securities which the Issuer, as of the date of this Offering Circular, expects to purchase (or commit to purchase) on the Closing Date. Such list of Collateral Debt Securities is subject to change on or prior to the Closing Date. The Issuer expects that, no later than the Ramp-Up Completion Date, it will have purchased (or entered into agreements to purchase for settlement following the Ramp-Up Completion Date) Collateral Debt Securities having an Aggregate Principal Balance of at least U.S.$1,000,000,000.

The Collateral Debt Securities purchased by the Issuer will, on the Closing Date, have the characteristics and satisfy the criteria set forth herein under "Security for the Notes—Collateral Debt Securities" and "—Eligibility Criteria."

Although the Issuer expects that the Collateral Debt Securities purchased by it will, on the Ramp-Up Completion Date, satisfy the Eligibility Criteria, Collateral Quality Tests and Coverage Tests described herein, there is no assurance that such criteria and such tests will be satisfied on such date. Failure to satisfy such criteria and such tests on the Ramp-Up Completion Date, or failure to satisfy a Coverage Test after 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), but will not constitute an Event of Default. See "Description of the Notes—Mandatory Redemption."

No Uninvested Proceeds will be used to invest in Collateral Debt Securities after the Ramp-Up Completion Date, except to complete any purchase which the Issuer committed to make during the Ramp-Up Period or as required to obtain a Rating Confirmation.

No reinvestment of Principal Proceeds in substitute Collateral Debt Securities will be made by the Issuer.

Although the entire aggregate principal amount of the Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes will be advanced on the Closing Date, less than the entire aggregate principal amount may be advanced under the Class A-1 Notes on the Closing Date.

During the period (the "Ramp-Up Period") from and including the Closing Date to, and including, the Ramp-Up Completion Date, the Class A-1 Noteholders will, subject to the conditions of borrowing set forth in the Class A-1 Note Purchase Agreement, be required to make advances under the Class A-1 Notes on the second day of each month (or if such day is not a Business Day, the next Business

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Day) upon receipt of a notice from the Issuer as described in the Class A-1 Note Purchase Agreement. The Issuer will be required to use the proceeds of such advances for the purchase of Collateral Debt Securities (for inclusion in the Collateral) having an Aggregate Principal Balance of not less than the Aggregate Principal Balance necessary for the Issuer to comply with its obligations under the Indenture and the Master Forward Sale Agreement.

Liquidation of Collateral Debt Securities:

On the Distribution Date in October 2041, or in connection with any Optional Redemption, Tax Redemption, Auction Call Redemption or Accelerated Maturity Date, the Collateral Debt Securities, Eligible Investments and other collateral will be liquidated. All net proceeds from such liquidation and all available cash will be applied to the payment (in the order of priorities set forth under "Description of the Notes—Priority of Payments") of all (i) fees, (ii) expenses (including termination payments under the Hedge Agreement) and (iii) principal of and interest (including the Class C Deferred Interest Amount, the Class D Deferred Interest Amount, Defaulted Interest and interest on Defaulted Interest, if any) and Commitment Fee on the Notes. Net proceeds from such liquidation and available cash remaining after all payments required pursuant to the Indenture and the payment of the costs and expenses of such liquidation, the establishment of adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer, the payment to the Preference Shareholders of the aggregate liquidation preference of the Preference Shares, the return of U.S.$1,000 of capital contributed to the Issuer by, and the payment of a U.S.$1,000 profit fee to, the owner of the Issuer's ordinary shares will be distributed to the Preference Shareholders in accordance with the Preference Share Documents.

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 one year and two days after the Stated Maturity of the Notes, upon the shareholders' determination to dissolve the Issuer, (ii) at any time after the sale or other disposition of all of the Issuer's assets, upon the shareholders' determination to dissolve the Issuer, (iii) at any time after the Notes are paid in full, upon the shareholders' 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 (2004 Revision) 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 distribute the proceeds of such liquidation to the Preference Shareholders.

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Plan of Distribution: The Offered Securities are being offered for sale in an initial distribution by the Issuer and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS" or the "Initial Purchaser") to investors (the "Original Purchasers") (a) in the United States which are "Qualified Institutional Buyers" (each, a "Qualified Institutional Buyer"), as defined in Rule 144A under the Securities Act, or Accredited Investors within the meaning of Rule 501(a) (each, an "Accredited Investor") under the Securities Act and, in each case, Qualified Purchasers in reliance on an exemption from registration under the Securities Act, in each case 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) and (b) outside the United States which are not U.S. persons, as such term is defined in Regulation S (each, a "U.S. Person") 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. Offered Securities offered for sale to a U.S. Person will be offered only to Qualified Purchasers. 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 of the Investment Company Act or (iii) a company beneficially owned exclusively by one or more such "qualified purchasers" and/or "knowledgeable employees." See "Plan of Distribution" and "Transfer Restrictions."

Ratings: 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") and "AAA" by each of Fitch Ratings ("Fitch") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's" and, together with Moody's and Fitch, the "Rating Agencies"), that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by each of Fitch and Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by each of Fitch and Standard & Poor's, that the Class C Notes be rated at least "A3" by Moody's and at least "A-" by each of Fitch and Standard & Poor's and that the Class D Notes be rated at least "Baa2" by Moody's and at least "BBB" by each of Fitch and Standard & Poor's. The ratings assigned by Moody's to the Notes address the ultimate cash receipt of all required interest (including, in the case of the Class C Notes and the Class D Notes, interest on all Class C Deferred Interest Amounts and interest on all Class D Deferred Interest Amounts) and principal payments on each such Class of Notes, in each case as provided in the governing documents, and are based on the expected loss posed to the Noteholders relative to the promise of receiving the present value of such payments. The ratings assigned by Standard & Poor's and Fitch to the Class A-1 Notes, the Class A-2 Notes and the Class B Notes address the timely payment of interest and ultimate payment of principal on each such Class of Notes at its Stated Maturity. The ratings assigned by Standard & Poor's and Fitch to the Class C

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Notes and the Class D Notes address the ultimate payment of interest (including interest on all Class C Deferred Interest Amounts and interest on all Class D Deferred Interest Amounts) and principal on each such Class of Notes at its Stated Maturity. The Preference Shares will not be rated by any Rating Agency.

Minimum Denominations:

The Notes will be issuable in a minimum denomination of U.S.$250,000 and will be offered only in such minimum denominations or integral multiples of U.S.$1,000 in excess thereof.

After issuance, a Note may fail to be in compliance with the minimum denomination requirement stated above as a result of (i) the repayment of principal thereof in accordance with the Priority of Payments or (ii) in the case of the Class A-1 Notes, the fact that the aggregate principal amount advanced by the Class A-1 Noteholders is less than the minimum denomination. Class C Notes and Class D 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 Amount or Class D Deferred Interest Amount, as applicable. See "Transfer Restrictions."

The Issuer is authorized to issue 15,500 Preference Shares, par value U.S.$0.01 per share. Each Preference Share will have a liquidation preference of U.S.$1,000 per share.

The minimum number of Preference Shares to be issued to an investor will initially be 250, representing an aggregate liquidation preference of U.S.$250,000, or integral multiples of 25 shares in excess thereof. Preference Shares may not be transferred if it is determined that, after giving effect to such transfer, the transferee (or, if the transferor retains any Preference Shares, the transferor) would own less than 250 Preference Shares; *provided* that the Issuer may, with the consent of the Initial Purchaser, authorize Preference Shares to be issued to up to five investors in a minimum number of 100 Preference Shares representing an aggregate liquidation preference of U.S.$100,000.

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).

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The Notes offered and sold 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 (as defined in Rule 144A) (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 of the Securities Act 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 unless such transfer is (a) not made to a U.S. Person or for the account or benefit of a U.S. Person and (b) effected in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 903 or Rule 904 of Regulation S, (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

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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 (1) such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected through Euroclear or Clearstream, Luxembourg in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures and (2) any transfer not effected in an offshore transaction in accordance with Rule 904 of Regulation S may be made only upon provision to the Note Registrar of written certification from the transferee and transferor in the form provided for in the Indenture and (y) 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. 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 Restricted Note (or any interest therein) (A) is a U.S. Person and (B) is not a Qualified Institutional Buyer (unless such beneficial owner is an Accredited Investor that purchased such Restricted Note (or any interest therein) directly from the Co-Issuers or the Initial Purchaser), 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 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 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 an investment bank selected by the Trustee and approved by the Issuer 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 or that may decline speedily in value) to a person that certifies to the Trustee and the Co-Issuers, 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 and such Note shall be deemed not to be outstanding for the purpose of any vote or consent of the Noteholders.

Form, Registration and Transfer of the Preference Shares:

The Preference Shares offered by the Issuer in the United States will be offered in reliance upon an exemption from the registration requirements of the Securities Act ("Restricted Definitive Preference Shares"). All Restricted Definitive Preference Shares will be represented by certificates in fully registered, definitive

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form registered in the name of the legal and beneficial owner thereof (or a nominee acting on behalf of the disclosed legal and beneficial owner thereof).

The Preference Shares offered by the Issuer outside the United States will be offered in reliance upon Regulation S ("Regulation S Preference Shares"). Regulation S Preference Shares will be represented by either (i) one or more global preference shares ("Regulation S Global 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) initially for the accounts of Euroclear, and/or Clearstream, Luxembourg or (ii) in the limited circumstances described herein, preference share certificates in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof ("Regulation S Definitive Preference Shares"). Interests in the Regulation S Global 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 Regulation S Preference Share, any purchaser thereof will be required to represent in a transfer certificate (in the case of the Regulation S Definitive Preference Shares) or be deemed to represent (in the case of the Regulation S Global 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 Definitive Preference Share.

No Preference Share may be transferred to a U.S. Person or within the United States except (a) to a transferee (i) 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 of the Securities Act provided by Rule 144A or (ii) pursuant to any other 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, (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 Preference Share Paying Agency Agreement, and (f) if such transfer is made in

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accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

No Preference Share may be transferred to a transferee who is acquiring an interest in a Regulation S Preference Share unless (a) such transfer is (i) not made to a U.S. Person or for the account or benefit of a U.S. Person and (ii) effected in an offshore transaction (within the meaning of Regulation S), (b) such transferee is not a Benefit Plan Investor, (c) such transferee is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (d) such transfer is made in compliance with the certification, if any, and other requirements set forth in the Preference Share Paying Agency Agreement, (e) such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction, and (f) such transferee executes a letter in the form of Exhibit A.

In addition, no Preference Shares may be held by or transferred to a person that (i) is not a Benefit Plan Investor but which has discretionary authority or control with respect to the assets of the Issuer, (ii) provides investment advice for a direct or indirect fee with respect to the assets of the Issuer or (iii) who is an Affiliate of any such person described under clause (i) or (ii) (any such person, a "Controlling Person"), unless such holder or transferee is an Original Purchaser of a Restricted Definitive Preference Share.

Original Purchasers that are Benefit Plan Investors or Controlling Persons may not purchase interests in Regulation S Preference Shares on the Closing Date. Original Purchasers that are Benefit Plan Investors or Controlling Persons may not purchase Restricted Definitive Preference Shares on the Closing Date if, after giving effect to such purchase, 25% or more of the Preference Shares would be owned by Benefit Plan Investors (excluding for purposes of such calculation Preference Shares owned by Controlling Persons). Subsequent to the Closing Date, no Restricted Definitive Preference Share or interest in a Regulation S Preference Share may be transferred to a Benefit Plan Investor.

In addition, no Reg Y Institution may transfer any Preference Shares held by it to any person other than (a) a person or group of persons under common control that controls the Issuer without reference to any Preference Shares transferred to such person or group by such Reg Y Institution (a "Controlling Party"), (b) a person or persons designated by a Controlling Party, (c) in a widespread public distribution as part of a public offering, (d) in amounts such that, after giving effect thereto, no single transferee and its affiliates will hold more than 2% of the aggregate number of Preference Shares (including all options, warrants and similar rights exercisable or convertible into Preference Shares) or (e) as otherwise permitted by applicable U.S. Federal banking law and

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	regulations. See "Transfer Restrictions."
Listing:	Application will be made to the Irish Stock Exchange for the Notes to be admitted to the Daily Official List and application will be made to the Channel Islands Stock Exchange ("CISX") to admit the Preference Shares to the Official List of the CISX. There can be no assurance that such applications will be granted. No application will be made to list the Notes or the Preference Shares on any other stock exchange. If any Preference Shares are admitted to the Official List of the CISX, the Issuer may at any time terminate the listing of such Preference Shares, if the Issuer determines that the maintenance of such listing would impose any material obligation or expense on the Issuer (in excess of the amount anticipated on the Closing Date). See "Listing and General Information."
Irish Listing Agent; Irish Paying Agent:	McCann FitzGerald Listing Services Limited is expected to be the Irish Listing Agent and Custom House Administration and Corporate Services Limited is expected to be the Irish Paying Agent for the Notes (in such capacities, the "Irish Listing Agent" and the "Irish Paying Agent," respectively).
CISX Sponsor:	Ogier Corporate Finance Limited is expected to be the CISX Sponsor with respect to the listing of the Preference Shares (the "CISX Sponsor").
Governing Law:	The Notes, the Indenture, the Collateral Management Agreement, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement, the Class A-1 Note Purchase Agreement, the initial Hedge Agreement, the Investor Application Forms and the Purchase Agreement will be governed by, and construed in accordance with, the laws 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 laws of the Cayman Islands.
Tax Matters:	See "Income Tax Considerations."
Benefit Plan Investors:	See "ERISA Considerations."

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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.

Limited Liquidity. There is currently no market for the Offered Securities. 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, 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 in the case of the Preference Shares, liquidation of the Issuer).

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 Collateral Manager, the Administrator, any Rating Agency, the Share Trustee, 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 and (solely with respect to the Class A-1 Notes) the Commitment Fee 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 and will not be secured pursuant to the lien of the Indenture.

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 and (solely with respect to the Class A-1 Notes) Commitment Fee on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full. Except as otherwise described in, and subject to, the Priority of Payments with respect to Interest Proceeds, no payment of principal of any Class of Notes will be made during the Sequential Pay Period until all principal of, and all accrued and unpaid interest and Commitment Fee (solely with respect to the Class A-1 Notes) on, the Notes of each Class that is Senior to such Class and that remain outstanding have been paid in full. See "Description of the Notes—Priority of Payments." If an Event of Default occurs, so long as any Notes are outstanding (or until the Commitment Period Termination Date has occurred), 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 Senior Class of Notes is outstanding (or the Commitment Period Termination Date has not occurred), the failure to make payment in respect of interest on the Class C Notes or the Class D Notes on any Distribution Date by reason of the Priority of

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Payments will not constitute an Event of Default under the Indenture. Any interest on the Class C Notes or the Class D 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. Generally, 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 D Notes, *third*, by the holders of the Class C Notes, *fourth*, by the holders of the Class B Notes, *fifth*, by the holders of the Class A-2 Notes and, sixth, by the holders of the Class A-1 Notes.

Payments in Respect of the Preference Shares. The Issuer, pursuant to the Indenture, has pledged substantially all of its assets to secure the Notes and certain other obligations of the Issuer. The proceeds of such assets will only be available to make payments in respect of the Preference Shares as and when such proceeds are released in accordance with the Priority of Payments. There can be no assurance that, after payment of principal of and interest and Commitment Fee 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." 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); provided that the Issuer will be solvent immediately following the date of such payment.

Any amounts that are released from the lien of the Indenture for distribution to the Preference Shareholders in accordance with the Priority of Payments on any Distribution Date will not be available to make payments in respect of the Notes on any subsequent Distribution Date.

Pro Rata Payment of Notes. If, on any Determination Date, (i) each Coverage Test is satisfied, (ii) no Event of Default has occurred or is continuing, (iii) the Class A Sequential Pay Test is satisfied, (iv) the Aggregate Principal Balance of all Pledged Collateral Debt Securities equals or exceeds 50% of the Net Outstanding Portfolio Collateral Balance on the Ramp-up Completion Date and (v) Standard & Poor's has not reduced or withdrawn its rating on any outstanding Class of Notes, Principal Proceeds will be applied on each Payment Date to pay principal of the Notes *pro rata* and not sequentially. This will have the effect of junior Classes of Notes being paid principal prior to the payment in whole of more senior Classes of Notes.

Yield Considerations. The yield to each holder of the Preference Shares will be a function of the purchase price paid by such holder for the Preference Shares and the timing and amount of dividends and other distributions made in respect of the Preference Shares during the term of the transaction. Each prospective purchaser of the Preference Shares should make its own evaluation of the yield that it expects to receive on the Preference Shares. Prospective investors should be aware that the timing and amount of dividends and other distributions will be affected by, among other things, the performance of the Collateral Debt Securities. Each prospective investor should consider the risk that an Event of Default will result in a lower yield on the Preference Shares than that anticipated by the investor. In addition, if the Issuer fails any of the Coverage Tests, amounts that would otherwise be distributed as dividends to the holders of the Preference Shares on any Distribution Date may be paid to other investors in accordance with the Priority of Payments. Each prospective purchaser should consider that any such adverse developments could result in its failure to recover fully its initial investment in the Preference Shares.

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Volatility of the Preference Shares. The Preference Shares represent a leveraged investment in the underlying Collateral. Therefore, it is expected that changes in the value of the Preference Shares 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. 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.

Ongoing Commitments—Class A-1 Notes. Holders of the Class A-1 Notes will be obligated during the Commitment Period, subject to compliance by the Issuer with certain borrowing conditions specified in the Class A-1 Note Purchase Agreement, to advance funds to the Issuer until the aggregate principal amount advanced under the Class A-1 Notes equals the aggregate amount of Commitments to make advances under the Class A-1 Note Purchase Agreement; *provided* that (i) the aggregate amount advanced under the Class A-1 Notes may not in any event exceed U.S.$850,000,000 (including amounts advanced on the Closing Date) and (ii) at the time of and immediately after giving effect to such Borrowing, no Event of Default or Default has occurred and is continuing or would result from such Borrowing. See "Description of the Notes—Drawdown—Class A-1 Notes."

Nature of Collateral. The Collateral is subject to credit, liquidity, interest rate, market, operations, fraud and structural risks. A 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 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.

Reliable sources of statistical information do not exist 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. The current interest rate spreads over LIBOR (or in the case of fixed rate Asset-Backed Securities, over the applicable U.S. Treasury Benchmark) on Asset-Backed Securities are at very low levels (compared to the levels during the past ten years); in the event that such interest rate spreads widen after the Closing Date, the market value of the Collateral Debt Securities is likely to decline and, in the case of a substantial spread widening, could decline by a substantial amount.

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

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assurance that such tests will be satisfied on such date. Failure to satisfy such tests on the Ramp-Up Completion Date, or failure to satisfy a Coverage Test after the Ramp-Up Completion Date, may result in the repayment or redemption of all or a portion of the Notes (according to the priority specified in the Priority of Payments). See "Description of the Notes—Mandatory Redemption."

Subject to the conditions described under "Security for the Notes—Dispositions of Collateral Debt Securities," the Collateral Manager may sell Credit Improved Securities, Credit Risk Securities, Defaulted Securities, Written Down Securities, Deferred Interest PIK Bonds and Equity Securities in accordance with the Eligibility Criteria. The Collateral Manager will not otherwise be entitled to sell Collateral Debt Securities prior to the maturity or early redemption thereof except in connection with an Optional Redemption, Auction Call Redemption, Tax Redemption or Accelerated Maturity Date or the winding up of the Issuer following the payment in full of the Notes.

Asset-Backed Securities. The Collateral Debt Securities will consist of Asset-Backed Securities or Synthetic Securities the Reference Obligations of which are Asset-Backed Securities or a specified pool of financial assets (including credit default swaps). "Asset-Backed Securities" are obligations or securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of financial assets or real estate mortgages, either static 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 such securities, and include ABS REIT Debt Securities. See "Security for the Notes—Asset-Backed Securities."

Holders of Asset-Backed Securities bear various risks, including credit risk, liquidity risk, interest rate risk, market risk, operations risk, structural risk and legal risk. 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.

Concentrations of Asset-Backed Securities of a particular type, as well as concentrations of Asset-Backed Securities issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the Offered Securities to additional risk.

Most 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 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. 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

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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 have a substantial impact on the holders of such subordinate security. See "Security for the Notes—Asset-Backed Securities" below.

Residential Mortgage-Backed Securities. The Collateral Debt Securities will consist primarily of Residential Mortgage-Backed Securities ("RMBS"), including Home Equity Loan Securities, Residential A Mortgage Securities and Residential B/C Mortgage Securities.

Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. See "Yield Considerations." Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than fully-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

Prepayments on the underlying residential mortgage loans in an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment

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would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS.

Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could result also in cash flow delays and losses on the related issue of RMBS.

In addition, structural and legal risks of RMBS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and losses on the related issue of RMBS.

It is not expected that the RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on the RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

It is expected that some of the RMBS owned by the Issuer will be subordinated to one or more other senior classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans. In addition, in the case of certain RMBS, no distributions of principal will generally be made with respect to any class until the aggregate principal balances of the corresponding senior classes of securities have been reduced to zero. As a result, the subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

Many of the RMBS which the Issuer may purchase are subject to available funds caps or other caps on the interest rate payable to holders of such securities. Available funds caps will limit interest payable to holders of RMBS (including the Issuer) on each distribution date to a rate equal to the weighted average net mortgage rate of the underlying collateral. As a result, interest payments on RMBS are subject to the risks discussed above with respect to returns on the underlying mortgage loans, whether as a result of fluctuations in interest rates, principal prepayments or otherwise. This could have an adverse effect on the Issuer's ability to pay interest on the Notes and to make distributions on the Preference Shares.

A high percentage of the RMBS purchased by the Issuer will be Residential B/C Mortgage Securities, which are secured primarily by subprime mortgages. Residential B/C Mortgage Securities are subject to a greater risk of loss in the event of foreclosures on the underlying mortgages and a greater likelihood of default on the underlying mortgage loans than Residential A Mortgage Backed Securities.

CDO Obligations. A significant portion of the Collateral Debt Securities acquired by the Issuer will consist of CDO Obligations. "CDO Obligations" are Asset-Backed Securities issued by an entity (a "CDO") formed for the purpose of holding or investing and reinvesting primarily in a pool (each such pool, an "Underlying Portfolio") of asset-backed securities, including collateralized debt obligations, commercial or industrial loans or obligations, corporate debt securities, or trust preferred securities (or

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any combination of the foregoing) and/or one or more synthetic securities or credit default swaps which reference such securities, loans or obligors thereon, subject to specified investment and management criteria.

CDO Obligations generally have underlying risks similar to many of the risks set forth in these Risk Factors for the Offered Securities, such as interest rate mismatches, trading and reinvestment risk and tax considerations. Each CDO Obligation, however, will involve risks specific to the particular CDO Obligation and its Underlying Portfolio. The value of the CDO Obligations generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the Underlying Portfolio, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

CDO Obligations are usually limited-recourse obligations of the issuer thereof payable solely from the Underlying Portfolios of such issuer or proceeds thereof. Consequently, holders of CDO Obligations must rely solely on distributions on the Underlying Portfolio or proceeds thereof for payment in respect thereof. If distributions on the Underlying Portfolio are insufficient to make payments on the CDO Obligation, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligation of such issuer to pay such deficiency shall be extinguished. As a result, the amount and timing of interest and principal payments will depend on the performance and characteristics of the related Underlying Portfolios.

The CDO Obligations included in the Collateral may have Underlying Portfolios that hold or invest in some of the same assets as the Collateral pledged to secure the Notes or held in the Underlying Portfolios of other CDO Obligations pledged as Collateral. The concentration in any particular asset may adversely affect the Issuer's ability to make payments on the Offered Securities. In addition, the Underlying Portfolios of the CDO Obligations may be actively traded. As a result, investors in the Offered Securities are exposed to the risk of loss on such Collateral Debt Securities both directly and indirectly through the CDO Obligations purchased by the Issuer. If an investor in the Offered Securities is also an investor in any CDO Obligation which the Issuer purchases (or in other tranches of securities sold by the same CDO), the exposure of such investor to the risk of loss on such CDO Obligation will increase as a result of its investment in the Offered Securities. The Initial Purchaser also acted as the placement agent for some of the CDO Obligations purchased by the Issuer, and earned fees from each such CDO as a result of the Issuer's purchase.

Although none of the Collateral Debt Securities securing the Notes will consist of Corporate Debt Securities, a portion of the obligations in the Underlying Portfolios of the CDO Obligations will consist of commercial or industrial loans or obligations, corporate debt securities or trust preferred securities (or any combination of the foregoing). As a result, these CDO Obligations will be exposed to the credit risks relating to the obligors of these loans or securities.

CDO Obligations are subject to interest rate risk. The Underlying Portfolio of an issue of CDO Obligations often will include assets that bear interest at a fixed rate while the CDO Obligations issued by such issuer typically bear interest at a floating rate. As a result, there could be a floating/fixed rate or basis mismatch between such CDO Obligations and Underlying Portfolios which bear interest at a fixed rate, and there may be a timing or basis mismatch between the CDO Obligations and Underlying Portfolios that bear interest at a floating rate as the interest rate on such floating rate Underlying Portfolios may adjust more frequently or less frequently, on different dates ad based on different indices, than the interest rates on the CDO Obligations. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDO Obligations.

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The CDO Obligations which the Issuer will purchase may be subordinated to other classes of securities issued by each respective issuer thereof. CDO Obligations that are not part of the most senior tranche(s) of the securities issued by the issuer thereof may allow for the deferral of the payment of interest on such CDO Obligations. The CDO Obligations that the Collateral Manager anticipates will form part of the Collateral are expected to include both senior and mezzanine debt issued by the related CDO Obligation issuers. The CDO Obligations that are mezzanine debt will have payments of interest and principal that are subordinated to one or more classes of notes that are more senior in the related issuer's capital structure, and generally will allow for the deferral of interest subject to the related issuer's priority of payments. To the extent that any losses are incurred by the issuer thereof in respect of its CDO Obligations, such losses will be borne by holders of the mezzanine tranches before any losses are borne by the holders of senior tranches. In addition, if an event of default occurs under the applicable indenture, as long as any senior tranche of CDO Obligations is outstanding, the holders of the senior tranche thereof may be entitled to determine the remedies to be exercised under the indenture, which could be adverse to the interests of the holders of the mezzanine tranches (including the Issuer).

The deferral of interest by the issuer of CDO Obligations forming part of the Collateral could result in a reduction in the amounts available to make payments to the holders of the Notes or in the deferral of interest on the Class C and Class D Notes.

The risks associated with investing in CDO Obligations may in addition depend on the skill and experience of the collateral manager managing the Underlying Portfolio, in particular, if the Underlying Instruments provide for active trading in securities comprising the Underlying Portfolio. This risk is greater if the Underlying Portfolio itself consists of collateralized debt obligations that rely on the skill and experience of the collateral manager.

Hybrid Securities. The Issuer may acquire Hybrid Securities. Hybrid Securities are Collateral Debt Securities that pass through interest and principal on underlying collateral ("Underlying Hybrid Collateral") generally consisting of residential mortgage loans which initially bear interest at a fixed rate and, after a specified initial period, convert to bearing interest at a floating rate that resets periodically based on a specified index as determined on each applicable reset date. Interest payable on Hybrid Securities may, as with other RMBS, be subject to available funds caps. As a result, interest distributions in respect of the Hybrid Securities will depend on the weighted average of the net mortgage rates on the related group or groups of Underlying Hybrid Collateral. The interest rates on Underlying Hybrid Collateral are fixed for initial specified periods of varying lengths from their dates of origination. After these initial fixed-rate periods, Underlying Hybrid Collateral convert to floating rate loans subject to periodic adjustments to their interest rates (which may not correspond to the reset dates for the applicable floating rate indices). On each reset date, the interest rate on each item of Underlying Hybrid Collateral will adjust to equal the sum of the then-applicable level of the related index and a specified gross margin. Underlying Hybrid Collateral may be subject to periodic caps limiting variation of interest rates from reset date to reset date. In addition, interest rates on Underlying Hybrid Collateral may be subject to initial caps limiting the changes in interest rates on their initial interest adjustment dates and overall maximum and minimum lifetime interest rate caps. Interest payable on Hybrid Securities may, as with other RMBS, be subject to available funds caps. The weighted average net mortgage rate on the Underlying Hybrid Collateral will be affected by variations in initial interest adjustment dates, reset dates, indices and gross margins, as well as fluctuations in the floating rate indices themselves. If, as a result of such interest rate adjustments, the weighted average net mortgage rates on the Underlying Hybrid Collateral are reduced, investors in the Hybrid Securities will experience a lower yield. In addition, if, despite increases in the applicable indices, mortgage interest rates on Underlying Hybrid Collateral are subject to maximum lifetime or periodic caps, the yield on the related Hybrid Securities will be similarly limited. Because, as a result of available funds caps, the pass-through rate on each Hybrid Security will be based on, or limited by, the weighted average of the net mortgage rates on one or more groups of

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Underlying Hybrid Collateral, disproportionate principal payments on the Underlying Hybrid Collateral having net mortgage interest rates higher or lower than the then-current pass-through rate on such Hybrid Securities will affect the pass-through rate for such Hybrid Securities for future periods and the yield on such Hybrid Securities.

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 or a specified pool of financial assets (including credit default swaps), either static or revolving, that by their terms convert into cash within a finite period of time. Investments in such types of assets through the purchase of (or entry into) 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(s) on the Reference Obligation(s). The Issuer generally will have no right directly to enforce compliance by the Reference Obligor(s) with the terms of either the Reference Obligation(s) or any rights of set off against the Reference Obligor(s), nor will the Issuer generally have any voting or other consensual rights of ownership with respect to the Reference Obligation(s). The Issuer will not directly benefit from any collateral supporting the Reference Obligation(s) and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation(s). 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(s). Consequently, the Issuer will be subject to the credit risk of the counterparty as well as that of the Reference Obligor(s). As a result, concentrations of Synthetic Securities entered into with any one counterparty will subject the Offered Securities to an additional degree of risk with respect to defaults by such counterparty as well as by the Reference Obligor(s). It is currently anticipated that one or more affiliates of the Initial Purchaser will act as counterparty with respect to all the Synthetic Securities purchased by the Issuer, which relationship may create certain conflicts of interest. Furthermore, such affiliates of the Initial Purchaser may, in their role as counterparty to all or a portion of the Synthetic Securities, manage a pool of Reference Obligations with respect to the Synthetic Securities and make determinations regarding those Reference Obligations. See "—Certain Conflicts of Interest—Certain Conflicts of Interest Involving the Initial Purchaser."

Exposure to the Risk of Corporate Debt Securities. Synthetic Securities and Synthetic Debt Securities will expose the Issuer to the risk of loss on Corporate Debt Securities if the credit default swap underlying the Synthetic Security or Synthetic Debt Security references a pool of Reference Obligors which are issuers of Corporate Debt Securities. The Reference Obligors under Synthetic Securities may be issuers of Corporate Debt Securities.

Limited Authority to Dispose of Collateral Debt Securities. The Collateral Debt Securities may not be sold or otherwise disposed of, except (i) in connection with an Optional Redemption, Tax Redemption, Auction Call Redemption or Accelerated Maturity Date or upon the winding up of the Issuer after payment in full of the Notes, and (ii) the Issuer may, at the direction of the Collateral Manager, sell (or, in the case of any Defaulted Synthetic Security, exercise its right to terminate) a Defaulted Security, Written Down Security, Deferred Interest PIK Bond, Credit Risk Security, Credit Improved Security or Equity Security, subject to the limitations specified under "Security for the Notes—Dispositions of Collateral Debt Securities." Accordingly, the Issuer's ability to sell existing Collateral Debt Securities will be limited. The Issuer may not reinvest the Sale Proceeds, but must retain them in the Principal Collection Account until the next Distribution Date; investment of such Sale Proceeds in Eligible Investments is likely to produce a lower yield than the Collateral Debt Securities that were sold.

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

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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—Limited Authority to Dispose of Collateral Debt Securities." Illiquid Collateral Debt Securities may trade at a discount from the price of 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.

Unspecified Use of Proceeds. On the Closing Date, proceeds from the issuance and sale of the Offered Securities will be used to purchase Collateral Debt Securities having a principal amount (together with the principal amount of Collateral Debt Securities which the Issuer has committed to purchase) of not less than U.S.$850,000,000. Most of the remainder of the net proceeds from the issuance and sale of the Offered Securities (including amounts advanced in respect of the Class A-1 Notes after the Closing Date) are expected to be invested in Collateral Debt Securities that may not have been identified by the Collateral Manager on the Closing Date. Purchasers of the Notes and the Preference Shares will not have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding the investments to be made by the Collateral Manager (on behalf of the Issuer) and, accordingly, will be dependent upon the judgment and ability of the Collateral Manager in investing and managing the proceeds of the Notes and in identifying investments over time. No assurance can be given that the Collateral Manager (on behalf of the Issuer) will be successful in obtaining suitable investments or that, if such investments are made, the objectives of the Issuer will be achieved.

Rating Confirmation Failure; Mandatory Redemption. The Issuer will notify the Trustee, each Rating Agency and each Hedge Counterparty within seven Business Days after the Ramp-Up Completion Date (such notification, a "Ramp-Up Notice"). The Issuer will request that each Rating Agency confirm to the Issuer that it has not reduced or withdrawn the rating assigned by it on the Closing Date to any Class of Notes (a "Rating Confirmation"). In the Ramp-Up Notice, the Issuer is required to certify to the Trustee and each Rating Agency whether the Collateral Quality Tests and the Coverage Tests have been satisfied. If the Issuer is unable to obtain a Rating Confirmation from each Rating Agency prior to the first Determination Date that is at least 30 Business Days following receipt by such Rating Agency of such Ramp-Up Notice (a "Rating Confirmation Failure"), on the first Distribution Date thereafter, the Issuer will be required to apply Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities) and, to the extent that such Uninvested Proceeds are insufficient to redeem the Notes to the extent necessary to obtain a Rating Confirmation, on such Distribution Date and on each Distribution Date thereafter, Interest Proceeds and, to the extent that Interest Proceeds are insufficient, Principal Proceeds, in each case in accordance with the Priority of Payments, to the repayment, of principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes and, *fifth*, the Class D Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation. See "Description of the Notes—Mandatory Redemption" and "—Priority of Payments." There can be no assurance that such redemption will result in a Rating Confirmation. The notional amount of any Hedge Agreement entered into by the Issuer may be reduced by the Hedge Counterparty in connection with a redemption of Notes on any such Distribution Date by reason of any Rating Confirmation Failure, which will require the Issuer to make a termination payment to the Hedge Counterparty.

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,

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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 Issuer only as a preliminary indicator of investment quality.

International Investing. The Collateral Debt Securities may include obligations of Qualifying Foreign Obligors. See clause (2) of the Eligibility Criteria under "Security for the Notes—Eligibility Criteria." In addition, the Collateral Debt Securities may be obligations of issuers organized in a Special Purpose Vehicle Jurisdiction. Moreover, subject to compliance with certain of the Eligibility 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; and (iv) risk of economic dislocations in such other country. 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.

In addition, there generally is less governmental supervision and regulation of exchanges, brokers 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, while generally growing in volume, 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

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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 D Notes, 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 advisory, investment and other activities of the Collateral Manager, its Affiliates and their respective clients and employees, including its affiliated broker-dealer, Cohen Bros. & Company, LLC, for their own accounts or for their respective client accounts. Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager and its Affiliates for their own accounts or for the accounts of others. The Collateral Manager and its Affiliates may invest for their own accounts or for the accounts of others in securities that would be appropriate investments for the Issuer and they have no duty, in making such investments, to act in a way that is favorable to the Issuer, the Noteholders or the Preference Shareholders. Such investments may be the same as or different from those made on behalf of the Issuer. The Collateral Manager and its

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Affiliates may have economic interests in, render services to, engage in transactions with or have other relationships with issuers in whose obligations or securities the Issuer may invest. In particular, such persons may make and/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 and/or held by the Issuer or the partners, security holders, officers, directors, agents or employees of such persons may serve on boards of directors of, or otherwise have ongoing relationships with, such issuer. As a result, officers or Affiliates of the Collateral Manager may possess information relating to issuers of Collateral Debt Securities which is not known to the individuals at the Collateral Manager responsible for monitoring the Collateral Debt Securities and performing the other obligations of the Collateral Manager under the Collateral Management Agreement. 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 (except as provided below under "Security for the Notes—Dispositions of Collateral Debt Securities") make investment recommendations and decisions that may be the same as or different from those made with respect to the Issuer's investments.

Neither the Collateral Manager nor any of its Affiliates is under any obligation to offer investment opportunities of which they become aware to the Issuer or to account to the Issuer for (or share with the Issuer or inform the Issuer of) any such transaction or any benefit received by them from any such transaction, or to inform the Issuer of any investments before offering any investments to other funds or accounts that the Collateral Manager and/or its Affiliates manage or advise. Furthermore, the Collateral Manager and/or its Affiliates may make an investment on behalf of any account that they manage or advise without offering the investment opportunity or making any investment on behalf of the Issuer. The Collateral Manager and/or its Affiliates have no affirmative obligation to offer any investments to the Issuer or to inform the Issuer of any investments before offering any investments to other funds or accounts that the Collateral Manager and/or its Affiliates manage or advise. Furthermore, the Collateral Manager and its Affiliates may make an investment on their own behalf without offering the investment opportunity to, or the Collateral Manager making any investment on behalf of, the Issuer. Affirmative obligations may arise in the future, whereby the Collateral Manager and/or its Affiliates are obligated to offer certain investments to funds or accounts that they manage or advise before or without the Collateral Manager's offering those investments to the Issuer. The Collateral Manager and its Affiliates have no affirmative obligation to offer any investments to the Issuer or to inform the Issuer of any investments before engaging in any investments for themselves. The Collateral Manager may make investments on behalf of the Issuer in securities or other assets, that it has declined to invest in for its own account, the account of any of its Affiliates or the account of its other clients.

Although the officers and employees of the Collateral Manager will devote as much time to the Issuer as the Collateral Manager deems appropriate, the principals and employees may have conflicts in allocating their time and services among the Issuer and other accounts now or hereafter advised by the Collateral Manager and/or its affiliates. The policies of the Collateral Manager are such that certain employees of the Collateral Manager may have or obtain information that, by virtue of the Collateral Manager's internal policies relating to confidential communications, cannot or may not be used by the Collateral Manager on behalf of the Issuer. 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 Indenture and the Collateral Management Agreement place significant restrictions on the Collateral Manager's ability to advise the Issuer to buy or 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

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other actions that the Collateral Manager might consider in the best interest of the Issuer and the Noteholders.

The Collateral Manager and any of its Affiliates may engage in any other business and furnish investment management and advisory services to others, which may include, without limitation, serving as collateral manager or investment manager for, investing in, lending to, or being affiliated with, other entities organized to issue collateralized bond obligations secured by securities such as the Collateral Debt Securities and other trusts and pooled investment vehicles that acquire interests in, provide financing to, or otherwise deal with securities issued by issuers that would be suitable investments for the Issuer. The Collateral Manager will be free, in its sole discretion, to make recommendations to others, or effect transactions on behalf of itself or for others, that may be the same as or different from those effected on behalf of the Issuer, and the Collateral Manager may furnish investment management and advisory services to others who may have investment policies similar to those followed by the Collateral Manager with respect to the Issuer and who may own securities of the same class, or which are the same type as, the Collateral Debt Securities. The Collateral Manager will at certain times (i) be simultaneously seeking to purchase or sell investments for the Issuer and any similar entity for which it serves as investment adviser in the future, or for its clients or Affiliates and/or (ii) take "short" positions with respect to certain securities that will be the same as the securities included in the Collateral.

The Collateral Manager and its Affiliates may enter into, for their own account, or for other accounts for which they have investment discretion, credit swap agreements relating to entities that are issuers of Collateral Debt Securities. The Collateral Manager and its Affiliates and clients may also have equity and other investments in and may be lenders to, and may have other ongoing relationships with such entities. As a result, officers or Affiliates of the Collateral Manager may possess information relating to the Collateral Debt Securities that is not known to the individuals at the Collateral Manager responsible for monitoring the Collateral Debt Securities and performing other obligations under the Collateral Management Agreement. In addition, Affiliates and clients of the Collateral Manager may invest in securities (or make loans) that are included among, rank *pari passu* with or senior to Collateral Debt Securities, or have interests different from or adverse to those of the Issuer.

The Collateral Manager or an Affiliate of the Collateral Manager may serve as a general partner and/or manager of special-purpose entities organized to issue collateralized debt obligations secured by debt obligations. The Collateral Manager and its Affiliates may make investment decisions for their own account or for the accounts of others, including other special-purpose entities organized to issue collateralized debt obligations, that may be the same as or different from those made by the Collateral Manager on behalf of the Issuer. The Collateral Manager or an Affiliate of the Collateral Manager may at certain times simultaneously seek to purchase (or sell) investments from the Issuer and sell (or purchase) the same investment for a similar entity, including other collateralized debt obligation vehicles, for which it serves as manager now or in the future, or for other clients or Affiliates. In the course of managing the Collateral Debt Securities held by the Co-Issuers, the Collateral Manager may consider its relationships with other clients (including companies the securities of which are pledged to secure the Notes) and its Affiliates. The Collateral Manager may decline to make a particular investment for the Issuer in view of such relationships. The Collateral Manager may also at certain times simultaneously seek to purchase investments for the Issuer and/or similar entities, including other collateralized debt obligation vehicles for which it serves as manager now or in the future, or for other clients or Affiliates. Such ownership and such other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and create other potential conflicts of interest with respect to the Collateral Manager. The effects of some of the actions described in this section may have an adverse impact on the market from which the Collateral Manager seeks to buy, or to which the Collateral Manager seeks to sell securities on behalf of the Issuer. In providing services to other clients, the Collateral Manager and its Affiliates may recommend activities that would compete with or otherwise adversely affect the Issuer.

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Pursuant to the Collateral Management Agreement, the Issuer is permitted (i) to purchase Collateral Debt Securities from the Collateral Manager or any Affiliate of the Collateral Manager as principal and (ii) to purchase Collateral Debt Securities from any account or portfolio for which the Collateral Manager or any of its Affiliates acts as investment adviser. In the foregoing situations, the Collateral Manager and its Affiliates may have a potentially conflicting division of loyalties regarding both parties in the transaction. If an Affiliate of the Collateral Manager acts as a broker in an agency cross transaction, such person may receive commissions from one or both of the parties in the transaction. While the Collateral Manager anticipates that any such commissions charged will be at competitive market rates, the Collateral Manager may have interests in such transactions that are adverse to those of the Issuer, such as an interest in obtaining favorable commissions.

The Collateral Manager or one or more Affiliates of the Collateral Manager will purchase a beneficial interest in up to 25% of the Preference Shares on the Closing Date. The Collateral Manager, its Affiliates and client accounts for which the Collateral Manager or its Affiliates act as investment advisor may at times also own other Offered Securities. As a holder of Offered Securities, the interests and incentives of the Collateral Manager will not necessarily be completely aligned with those of the other holders of the Offered Securities (or of the holders of any particular Class of Notes or any Preference Shares). Accordingly, the ownership of Preference Shares by the Collateral Manager and its Affiliates may give the Collateral Manager an incentive to take actions that vary from the interests of the holders of the Notes. The Collateral Manager, its Affiliates and client accounts are not required to purchase or hold any Offered Securities, and may at any time sell any Offered Securities held by them (including the Preference Shares purchased by them on the Closing Date). The Collateral Manager may pledge or otherwise assign all or a portion of its right to receive payment of Senior Management Fees and dividends and other distributions on Preference Shares owned by it for the purpose of financing its acquisition of Preference Shares.

Pursuant to the Collateral Management Agreement, the Issuer will pay a fee of U.S.$1,150,000 to the Collateral Manager on the Closing Date for collateral management services performed prior to the Closing Date.

Any Offered Securities held by the Collateral Manager or any Affiliate of the Collateral Manager or any Offered Securities over which the Collateral Manager or any of its Affiliates have discretionary voting authority (the "Collateral Manager Securities"), in each case will have no voting rights with respect to any vote (i) in connection with the removal of the Collateral Manager or (ii) increasing the rights or decreasing the obligations of the Collateral Manager, and will be deemed not to be outstanding in connection with any such vote; *provided*, *however*, that any such Collateral Manager Securities will have voting rights and will be deemed outstanding with respect to all other matters as to which holders of Offered Securities are entitled to vote. For purposes hereof, "Affiliate" means, with respect to any specified person, (i) any other person controlling, controlled by or under common control with such specified person or (ii) any other person who is a director, member, officer, employee, managing member or general partner of (a) any specified person or (b) any such other person described in clause (i) above. For the purposes of this definition, "control," when used with respect to any specified person, means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of this definition, the management of an account by one person for the benefit of any other person shall not constitute "control" of such other person. Notwithstanding the foregoing, "Affiliate," with respect to the Issuer, does not include entities that are under common control by virtue of the affiliations of the directors of the Issuer or the Administrator.

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No provision in the Collateral Management Agreement prevents the Collateral Manager or any of its Affiliates from rendering services of any kind to any person or entity, including the issuer of any obligation included in the Collateral or any of its affiliates, the Trustee, the holders of the Offered Securities or any Hedge Counterparty. Without limiting the generality of the foregoing, the Collateral Manager, its Affiliates and their respective directors, officers, employees and agents may, among other things: (a) serve as directors, partners, officers, employees, agents, nominees or signatories for any issuer of any obligation included in the Collateral; (b) receive fees for services to be rendered to the issuer of any obligation included in the Collateral or any affiliate thereof; (c) be retained to provide services unrelated to the Collateral Management Agreement to the Issuer or its affiliates and be paid therefor; (d) be a secured or unsecured creditor of, or hold an equity interest in, any issuer of any obligation included in the Collateral; (e) serve as a member of any "creditors board" with respect to any obligation included in the Collateral which has become or may become a Defaulted Security; (f) underwrite, act as a distributor of or make a market in any Collateral Debt Security or Eligible Investment; or (g) sell any Collateral Debt Security or Eligible Investment to, or purchase any Collateral Debt Security or Eligible Investment from, the Issuer while acting in the capacity of principal or agent. Services of this kind may lead to conflicts of interest with the Collateral Manager, and may lead individual officers or employees of the Collateral Manager to act in a manner adverse to the Issuer.

As a holder of Offered Securities, the interests and incentives of the Collateral Manager will not necessarily be completely aligned with those of the other holders of the Offered Securities (or of the holders of any particular Class of Notes or any Preference Shares). Accordingly, the ownership of Preference Shares by the Collateral Manager and its Affiliates may give the Collateral Manager an incentive to take actions that vary from the interests of the holders of the Notes.

The Collateral Manager shall use commercially reasonable efforts to obtain the best execution for all orders placed with respect to the Collateral Debt Securities, considering all reasonable circumstances, including, if applicable, the conditions or terms of early redemption of the Notes, it being understood that the Collateral Manager has no obligation to obtain the lowest prices available. In pursuit of the objective of obtaining the best execution, the Collateral Manager may take into consideration all factors the Collateral Manager reasonably determines to be relevant, including, without limitation, timing, general relevant trends and research and other brokerage services and support equipment and services related thereto furnished to the Collateral Manager or its Affiliates by brokers and dealers (which broker and/or dealer may or may not be Cohen Bros. & Company, LLC, the Collateral Manager's affiliated broker-dealer). Any execution or transaction with Cohen Bros. & Company, LLC, the Collateral Manager's affiliated broker-dealer, will be conducted on an arm's length basis. Such services may be used in connection with the other advisory activities or investment operations of the Collateral Manager and/or its Affiliates. The Collateral Manager may aggregate sales and purchase orders of securities placed with respect to the Collateral with similar orders being made simultaneously for other accounts managed by the Collateral Manager or with accounts of the Affiliates of the Collateral Manager if in the Collateral Manager's sole judgment such aggregation would result in an overall economic benefit to the Issuer, taking into consideration the availability of purchasers or sellers, the selling or purchase price, brokerage commission and other expenses. However, no provision in the Collateral Management Agreement requires the Collateral Manager or its Affiliates to execute orders as part of concurrent authorizations or to aggregate sales. In the event that a sale or purchase of a Collateral Debt Security occurs as part of any aggregate sale or purchase order, the objective of the Collateral Manager (and any of its Affiliates involved in such transactions) shall be to allocate the executions among the relevant accounts in a manner reasonably believed by the Collateral Manager to be equitable over time for all accounts involved (taking into account constraints imposed by the Eligibility Criteria).

The Collateral Manager may also effect client cross-transactions where the Collateral Manager causes a transaction to be effected between the Issuer and another account advised by it or any of its

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Affiliates. In addition, with the prior authorization of the Issuer, which can be revoked at any time, the Collateral Manager may enter into agency cross-transactions where it or any of its Affiliates acts as broker for the Issuer and for the other party to the transaction, to the extent permitted by applicable law, in which case any such affiliate will receive commissions from, and have a potentially conflicting division of loyalties and responsibilities regarding, both parties to the transaction. Also with the prior authorization of the Issuer and in accordance with Section 11(a) of the Exchange Act and regulation 11a2-2(T) thereunder (or any similar rule that may be adopted in the future), the Collateral Manager may affect transactions for the Issuer on a national securities exchange of which any of its Affiliates is a member and retain commissions in connection therewith. Although the Affiliates of the Collateral Manager anticipate that the commissions, mark-ups and mark-downs charged by the Affiliates will generally be competitive, the Collateral Manager may have interests in such transactions that are adverse to those of the Issuer, such as an interest in obtaining favorable commission rates, mark-ups and mark-downs.

Cohen Bros. & Company, LLC will have no responsibility for, or liability with regard to, the obligations of the Collateral Manager under the Collateral Management Agreement.

Certain 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, for which the Initial Purchaser or an affiliate of the Initial Purchaser has acted as underwriter, agent, placement agent or dealer or for which an affiliate of the Initial Purchaser has acted as lender or provided other commercial or investment banking services. The Initial Purchaser or affiliates of the Initial Purchaser may structure issues of Collateral Debt Securities and arrange to place such Collateral Debt Securities with the Issuer. An affiliate of the Initial Purchaser (or an investment vehicle advised by the Initial Purchaser) may purchase Class A-1 Notes on the Closing Date and, as a result, may initially and at any time thereafter be able to exercise the rights of the Controlling Class. On or after the Closing Date, the Initial Purchaser may purchase other Offered Securities. The Initial Purchaser or one or more of its affiliates may also act as counterparty with respect to any or all of the Synthetic Securities acquired (or entered into) by the Issuer or with respect to the Hedge Agreements. It is currently anticipated that the Initial Purchaser or its Affiliates will act as counterparty to all Synthetic Securities purchased by the Issuer. Furthermore, the Initial Purchaser or such affiliates of the Initial Purchaser may in their role as counterparty to all or a portion of the Synthetic Securities manage a pool of Reference Obligations with respect to the Synthetic Securities and make determinations regarding those Reference Obligations. Moreover, the Initial Purchaser or its affiliates may from time to time enter into derivative transactions with third parties with respect to the Offered Securities or with respect to Collateral Debt Securities acquired by the Issuer, and the Initial Purchaser or its affiliates may, in connection therewith, acquire (or establish long, short or derivative financial positions with respect to) Offered Securities, Collateral Debt Securities or one or more portfolios of financial assets similar to the portfolio of Collateral Debt Securities acquired by (or intended to be acquired by) the Issuer. In addition, an affiliate of the Initial Purchaser will sell all or most of the initial portfolio of Collateral Debt Securities to the Issuer on the Closing Date. Merrill Lynch International ("MLI"), an affiliate of the Initial Purchaser, will also enter into a Master Forward Purchase Agreement with the Issuer on the Closing Date (the "Master Forward Sale Agreement"), pursuant to which the Issuer after the Closing Date will agree to acquire securities from MLI on a forward sale basis during the Ramp-Up Period. Notwithstanding anything in the Indenture to the contrary (including the Eligibility Criteria), such security may be acquired by the Issuer on any date during the Ramp-Up Period at the price specified in the Master Forward Sale Agreement, which may not represent the market value of such security on the date on which such security is delivered to the Issuer. Compliance with the Eligibility Criteria at the time of such transaction will not be independently monitored by MLI.

These activities may create certain conflicts of interest, and there can be no assurance that the terms on which the Issuer entered into (or enters into) any of the foregoing transactions with the Initial

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Purchaser (or an Affiliate thereof) were or are the most favorable terms available in the market at the time from other potential counterparties. The Initial Purchaser and each of its Affiliates will take such actions, in each of the capacities listed above, as it deems to be in its commercial interests and will have no obligation to consider the effect of its actions on the Issuer, Noteholders or Preference Shareholders.

Purchase of Collateral Debt Securities. All or most of the Collateral Debt Securities purchased by the Issuer on the Closing Date will be purchased from a portfolio of Collateral Debt Securities selected by the Collateral Manager and held by MLI pursuant to warehousing agreements between MLI and the Collateral Manager. Some of the Collateral Debt Securities subject to such warehousing agreement may have been originally acquired by MLPFS from the Collateral Manager or one of its affiliates or clients and some of the Collateral Debt Securities subject to such warehousing agreements may include securities issued by a fund or other entity owned, managed or serviced by the Collateral Manager or its Affiliates. The Issuer will purchase Collateral Debt Securities included in such warehouse portfolios only to the extent that such purchases are consistent with the investment guidelines of the Issuer, the restrictions contained in the Indenture and the Collateral Management Agreement and applicable law. The purchase price payable by the Issuer for such Collateral Debt Securities will be based on the purchase price paid when such Collateral Debt Securities were acquired under the warehousing agreements, accrued and unpaid interest on such Collateral Debt Securities as of the Closing Date and gains or losses incurred in connection with hedging arrangements entered into with respect to such Collateral Debt Securities. Accordingly, the Issuer will bear the risk of market changes subsequent to the acquisition of such Collateral Debt Securities and related hedging arrangements as if it had acquired such Collateral Debt Securities directly at the time of purchase by MLI of such Collateral Debt Securities and not the Closing Date.

Ramp-Up Period Purchases. The Issuer will use its commercially reasonable efforts to purchase or enter into binding agreements to purchase, on or before September 26, 2005, Collateral Debt Securities having an Aggregate Principal Balance (together with certain other amounts) of not less than U.S.$1,000,000,000 and at least 175 obligors.

Although the entire aggregate principal amount of the Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes will be advanced on the Closing Date, less than the entire aggregate principal amount of the Class A-1 Notes may be advanced on the Closing Date. During the period from and including the Closing Date to, and including, the Ramp-Up Completion Date (the "Ramp-Up Period"), the Issuer will borrow from the holders of the Class A-1 Notes on and subject to the terms and conditions in the Class A-1 Note Purchase Agreement. The Issuer will use the proceeds of such borrowings to purchase Collateral Debt Securities (for inclusion in the Collateral). The Issuer is expected to apply most of the proceeds of such borrowings to purchase Collateral Debt Securities from an affiliate of the Initial Purchaser under the Master Forward Purchase Commitment.

Whether or not the Issuer has succeeded in acquiring Collateral Debt Securities having an Aggregate Principal Balance (together with certain other amounts) of U.S.$1,000,000,000 by the Ramp-Up Completion Date, if any of the Collateral Quality Tests or the Coverage Tests are not satisfied, a Rating Confirmation Failure may occur. Following a Rating Confirmation Failure, Uninvested Proceeds, Interest Proceeds and Principal Proceeds (to the extent necessary to obtain a Rating Confirmation) may be applied to redeem the Notes, in part, as and in the amount described herein. See "Security for the Notes—Ramp-Up Period."

On the first Distribution Date following the occurrence of a Rating Confirmation, all Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities) are required to be applied as Interest Proceeds (to the extent of the Interest Excess if there is a Rating Confirmation) or Principal Proceeds. Accordingly, to the extent that Uninvested Proceeds have not been invested in

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Collateral Debt Securities during the Ramp-Up Period, such Uninvested Proceeds will be distributed on such Distribution Date in accordance with the Priority of Payments.

Failure to be Fully Invested During the Ramp-Up Period. The amount of Collateral Debt Securities purchased on the Closing Date and the amount and timing of the purchase of additional Collateral Debt Securities during the Ramp-Up Period will affect the return to holders of, and cash flows available to make payments on, the Offered Securities. Reduced liquidity and lower volumes of trading in certain Collateral Debt Securities, in addition to restrictions on investment contained in the Eligibility Criteria, could reduce the rate at which the Collateral Manager is able to invest in Collateral Debt Securities. Any excess cash not used to purchase Collateral Debt Securities is expected to be invested in Eligible Investments. Because of the short term nature and credit quality of Eligible Investments, the interest rates payable on Eligible Investments tend to be significantly lower than the rates the Issuer would expect to earn on Collateral Debt Securities.

The timing of the purchase of Collateral Debt Securities, the amount of any purchased accrued interest, the timing of additional Borrowings under Class A-1 Notes, the scheduled interest payment dates of the Collateral Debt Securities and the amount invested in lower-yielding Eligible Investments until invested in Collateral Debt Securities, may have an impact on the amount of Interest Proceeds collected during the first Due Period, which could adversely affect interest payments on Notes and distributions on Preference Shares.

Initial Hedge Counterparty. AIG Financial Products Corp. ("AIG-FP") will be the Initial Hedge Counterparty. American International Group, Inc. ("AIG") is the guarantor of the payment obligations of its subsidiary, AIG-FP, with respect to the Hedge Agreements entered into between AIG-FP and the Issuer.

Prospective purchasers of the Securities should consider and assess for themselves the likelihood of a default by the Initial Hedge Counterparty, as well as the obligations of the Issuer under the Hedge Agreements, including the obligation to make termination payments to any Hedge Counterparties (and the obligations of the Hedge Counterparty to make payments to the Issuer), and the likely ability of the Issuer to terminate or reduce any Hedge Agreements or enter into additional Hedge Agreements.

True Sale. If MLI were 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 MLI are property of the insolvency estate of MLI. Property that MLI has pledged or assigned, or in which MLI has granted a security interest, as collateral security for the payment or performance of an obligation, would be property of the estate of MLI. Property that MLI has sold or absolutely assigned and transferred to another party, however, is not property of the estate of MLI. 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).

Dependence on the Collateral Manager and Key Personnel. The performance of the portfolio of Collateral Debt Securities depends heavily on the skills of the Collateral Manager in analyzing and selecting the Collateral Debt Securities. As a result, the Issuer will be highly dependent on the financial and managerial experience of the Collateral Manager and certain of the officers and employees of the Collateral Manager to whom the task of selecting and monitoring the Collateral has been assigned or delegated. Certain employment arrangements between those officers and employees and the Collateral Manager may exist, but the Issuer is not, and will not be, a direct beneficiary of such arrangements, which

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arrangements are in any event subject to change without the consent of the Issuer. The loss of one or more individuals employed by the Collateral Manager to manage the Issuer's investments could have a significant adverse effect on the performance of the Issuer. See "Collateral Manager" and "The Collateral Management Agreement."

Relation to Prior Investment Results. The Collateral Manager is a newly formed entity and has no prior investment results. This is the first CDO investing in Asset-Backed Securities for which Strategos will be the collateral manager. The prior investment results of 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 any Hedge Agreements, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, 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 Trustee, the Collateral Manager, 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 (the "SEC") and the National Association of Securities Dealers (the "NASD"), such as the Initial Purchaser, 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. The Treasury Department has published proposed regulations that, if enacted in their current form, will compel certain "unregistered investment companies" to undertake certain activities including establishing, maintaining and periodically testing an anti-money laundering compliance program, and designating and training personnel responsible for that compliance program. In addition, the Treasury Department has published proposed regulations that would require certain investment managers to establish anti-money laundering programs. The Issuer will continue to monitor the ambit of the proposed regulations, and of the

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exceptions thereto, and will take all necessary steps (if any) required to comply with those regulations once they are enacted. It is possible that 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. The Issuer reserves the right to request such information as is necessary to verify the identity of the holder of an Offered Security and the source of the payment of subscription monies, or as is necessary to comply with any customer identification programs required by the Treasury Department or by any other governmental or self-regulatory agency. Legislation and/or regulations could require the Issuer to implement additional restrictions on the transfer of the Offered Securities. In the event of delay or failure by the applicant to produce any information required for verification purposes, an application for or transfer of the Offered Securities and the subscription monies relating thereto may be refused.

The Issuer reserves the right to request such information as is necessary to verify the identity of a Preference Shareholder and the source of the payment of subscription monies. In the event of delay or failure by the applicant to produce any information required for verification purposes, an application for or transfer of Preference Shares and the subscription monies relating thereto may be refused.

If any person or entity in the Cayman Islands involved in the business of the Issuer (including the Administrator) has a suspicion or belief that a payment to the Issuer (by way of subscription or otherwise) is derived from or represents the proceeds of criminal conduct, that person is obliged report such suspicion to the Cayman Islands Reporting Authority pursuant to The Proceeds of Criminal Conduct Law (2004 Revision) of the Cayman Islands.

Investment Company Act. Neither of the Co-Issuers has been registered with 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 whose investors resident in the United States are Qualified Purchasers. Counsel for the Co-Issuers will opine, in connection with the sale of the Notes and Preference Shares by the Initial Purchaser, 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 by the Initial Purchaser in accordance with the terms of the Purchase Agreement). No opinion or no-action position has been requested of the SEC.

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 non-enforcement and would not be inconsistent with the purposes of the Investment Company Act. The Issuer or the Co-Issuer, as applicable, would be materially and adversely affected if it were subjected to any of the foregoing consequences of such a violation of the Investment Company Act.

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

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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; and (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 (unless such beneficial owner is an Accredited Investor that purchased such Restricted Note or interest therein directly from the Co-Issuers or Initial Purchaser) 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 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 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 an investment bank selected by the Trustee and approved by the Issuer 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 or that may decline speedily in value) to a person that certifies to the Trustee and the Co-Issuers, in connection with such transfer, that such person is a 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 Preference Share Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner of Restricted Definitive Preference Shares (A) is a U.S. Person (within the meaning of Regulation S under the Securities Act) and (B) is not both (i) (x) a Qualified Institutional Buyer (unless such beneficial owner is an Accredited Investor that purchased such Restricted Definitive Preference Share in connection with the initial distribution thereof) or (y) entitled to take delivery of such Restricted Definitive Preference Share pursuant to 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 (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 Restricted Definitive Preference Shares (or interest therein) to a person that is both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Restricted Definitive Preference Share pursuant to 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 (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 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 an investment bank selected by the Preference Share Paying Agent and approved by the Issuer 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 or that may decline speedily in value) to a person that certifies to the Preference Share Paying Agent and the Issuer, in connection with such transfer, that such person is a both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Restricted

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Definitive Preference Share pursuant to 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 (ii) 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 then Principal Proceeds, if needed) 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. The Hedge Counterparty may terminate the Hedge Agreement, in part, as a result, which will require the Issuer to make termination payments to the Hedge Counterparty. See "Description of the Notes—Mandatory Redemption."

So long as a Senior Class of Notes are outstanding, 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 a Subordinate Class of Notes and a deferral or reduction in distributions on the Preference Shares, which could adversely impact the returns of such holders. See "Description of the Notes—Principal," "—Mandatory Redemption" and "—Priority of Payments—Interest Proceeds."

If a Rating Confirmation Failure occurs, Uninvested Proceeds and, after application of such Uninvested Proceeds, Interest Proceeds and, after application of Interest Proceeds, Principal Proceeds, will be used for the payment of principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, third, the Class B Notes, fourth, the Class C Notes and, fifth, the Class D Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation.

Auction Call Redemption. In addition, if the Notes have not been redeemed in full prior to the Distribution Date occurring in July 2013 then an auction of the Collateral Debt Securities will be conducted and, if certain conditions are satisfied, the Collateral Debt Securities will be sold and the Notes will be redeemed (in whole, but not in part) on such Distribution Date. No redemption of the Notes may occur unless proceeds of the auction, together with other Available Redemption Funds, are sufficient to pay the Total Senior Redemption Amount. If such conditions are not satisfied and the auction is not successfully conducted on such Distribution Date, the Trustee will conduct auctions on a quarterly basis until the Notes are redeemed in full. See "Description of the Notes—Redemption Price" and "—Auction Call Redemption." Each Hedge Agreement will terminate upon any Auction Call Redemption.

Optional Redemption. Subject to satisfaction of certain conditions, a Special-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"; provided that no such optional redemption may occur (a) prior to the Distribution Date occurring in July 2009 and (b) unless certain conditions are satisfied. See "Description of the Notes—Optional Redemption and Tax Redemption." Each 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 (such redemption, a "Tax Redemption") on any Distribution Date, in whole but not in part, at the applicable Redemption Price therefor (i) at the direction of the holders of at least $66^2/_3$% in Aggregate Outstanding 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 due and payable to such Class on any Distribution Date (each such Class, an "Affected Class") or (ii) at the direction of a Special-Majority-in-Interest of Preference Shareholders; provided that certain conditions

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are satisfied. No Tax Redemption may be effected, however, unless the Tax Materiality Condition is satisfied. See "Description of the Notes—Optional Redemption and Tax Redemption." Each 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. The Collateral Debt Securities will include obligations that bear interest at LIBOR and other floating rates that are calculated or fixed on different dates or for shorter or longer periods than the LIBOR applicable to the Notes. The Collateral Debt Securities may include obligations that bear interest at fixed rates, or at initially fixed rates that after a period of time convert to floating rates. Accordingly, the Notes are subject to interest rate risk to the extent that there is an interest rate or basis mismatch between the floating rate at which interest accrues on the Notes and the floating or fixed rates at which interest accrues on the Collateral Debt Securities. The relative movements of LIBOR and any floating rate applicable to the Collateral Debt Securities could adversely impact the Issuer's ability to make payments on the Notes or distributions on the Preference Shares. 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 three-month 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). To mitigate 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. The Hedge Agreement which will be in effect on the Closing Date terminates in July 2014, which is prior to the Stated Maturity of the Notes, and the notional amount of such Hedge Agreement will be reduced on each Payment Date in accordance with a schedule attached to such Hedge Agreement. 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 Agreements."

Subject to satisfaction of the Rating Condition with respect to such reduction, the Collateral Manager may direct the Issuer to request a reduction in the notional amount of any Hedge Agreement. In connection with such reduction, a termination payment may be due from the Issuer to the Hedge Counterparty. If the Issuer is required to pay a termination payment to the related Hedge Counterparty, subject to the Priority of Payments, such payment will be made prior to the payment of any interest on or principal of the Notes. See "Security for the Notes—The Hedge Agreements."

Termination of Hedge Agreements and Liquidation of Collateral Upon Redemption; Market Value of the Collateral. Each Hedge Agreement will terminate upon an Optional Redemption, Tax Redemption, Auction Call Redemption or upon the occurrence of an Accelerated Maturity Date, which may require the Issuer to make a termination payment to the applicable Hedge Counterparty. Any such termination payment would reduce the proceeds available to be distributed on the Offered Securities. In addition, an Optional Redemption, a Tax Redemption, an Auction Call Redemption or the occurrence of an Accelerated Maturity Date may require the Collateral Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the Collateral Debt Securities sold and lower the returns on the Preference Shares. Moreover, the Collateral Manager may be required, in order to sell all the Collateral Debt Securities, to aggregate Collateral Debt Securities in a block transaction, thereby possibly resulting in a lower realized value for the Collateral Debt Securities sold. There can be no assurance that the market value of the Collateral will be sufficient to pay the Redemption Price of the Notes and the Preference Share Redemption Date Amount. If the Collateral is

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liquidated, the holders of the Preference Shares may receive no distribution and, on an Accelerated Maturity Date, holders of the Notes may suffer a loss.

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. 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. Accordingly, the average life of the Notes will be affected by the rate of principal payments on the underlying Collateral Debt Securities. See "Maturity, Prepayment and Yield Considerations" and "Security for the Notes."

Up Front Payment. The Hedge Agreement will provide that the Hedge Counterparty make an Up Front Payment of U.S.$8,420,000 on the Closing Date to the Issuer. As a result of this Up Front Payment, the payments to be made by the Issuer to the Hedge Counterparty under the Hedge Agreement on each Distribution Date will be more than they would have been if the Up Front Payment had not been made, because such payments include the repayment by the Issuer of this Up Front Payment together with interest thereon. As a result of the amounts payable under the Hedge Agreement by the Issuer on each Distribution Date, the funds available to pay interest and Commitment Fee on the Notes and distributions on the Preference Shares will be less on each such Distribution Date. Moreover, in the event of an early termination of the Hedge Agreement, the Issuer will be required to make a termination payment to the Hedge Counterparty, and such termination payment will be larger than if the Up Front Payment had not been made. However, the initial cash balance in the Uninvested Proceeds Account will be higher on the Closing Date than it would have been if an Up Front Payment had not been made. The Issuer's obligations to the Hedge Counterparty in respect of payments under the Hedge Agreement (including repayment of an Up Front Payment, together with interest thereon), will be secured under the Indenture and will be senior in priority to the Issuer's obligations to pay interest, Commitment Fee and principal on 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 Original Purchaser of Preference Shares from the Initial Purchaser will be required to covenant in an Investor Application Form (and each transferee of Preference Shares will be required to covenant in a transfer certificate) that it will not cause or join in 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 (plus one day) 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.

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Listing. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the Daily Official List. Application will be made to the CISX for the listing of the Preference Shares. There can be no assurance that any such listing will be obtained or that, if it is obtained, that it will be maintained by the Issuer. If any Class or Classes of Notes are admitted to the Daily Official List of the Irish Stock Exchange, the Issuer may at any time terminate the listing of such Notes if the Issuer determines that, as a result of a change in the requirements of the Irish Stock Exchange, the maintenance of such listing would impose any material obligation or expense on the Issuer (in excess of the amount anticipated on the Closing Date). If the Preference Shares are listed on the CISX, the Issuer may at any time terminate the listing of the Preference Shares if the Issuer determines that, as a result of a change in the requirements of the CISX, the maintenance of such listing would impose any material obligation or expense on the Issuer (in excess of the amount anticipated on the Closing Date). If the Issuer terminates the listing, it will make reasonable endeavors to seek a replacement listing on such other stock exchange outside the European Union that is a member of the International Federation of Stock Exchanges and that is located in a state that is a member of the Organization for Economic Cooperation and Development, unless obtaining or maintaining a listing on such stock exchange requires the Issuer to restate its accounts or is otherwise unduly burdensome, in which event the Issuer will make reasonable endeavors to obtain a replacement listing elsewhere.

Taxes on the Issuer. The Issuer expects to conduct its affairs so that its net income will not become subject to U.S. Federal income tax. There can be no assurance, however, that its net income will not become subject to U.S. Federal income tax as the result of activities by the Issuer, changes in law, conclusions by U.S. tax authorities or other causes.

The Issuer expects that payments received on the Collateral Debt Securities, Eligible Investments and the Hedge Agreement generally will not be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. Payments on the Collateral Debt Securities, Eligible Investments and the Hedge Agreement, 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 held by the Issuer 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, interest on and Commitment Fee on the Notes and make distributions on the Preference Shares.

No Gross Up. The Issuer expects that payments of principal and interest by the Issuer on the Notes, and distributions of dividends and return of capital on the Preference Shares, will ordinarily not be subject to any withholding tax in the Cayman Islands, the United States or any other jurisdiction. See "Income Tax Considerations." In the event that withholding or deduction of any taxes from payments or distributions is required by law in any jurisdiction, neither of the Co-Issuers shall be under any obligation to make any additional payments to the holders of any Notes or Preference Shares in respect of such withholding or deduction.

Tax Treatment of Holders of Preference Shares. Because of the nature and composition of the projected assets and income of the Issuer, the Issuer is expected to be a passive foreign investment company (a "PFIC") for U.S. Federal income tax purposes. A U.S. shareholder must generally choose either (1) to elect to treat the Issuer as a qualified electing fund ("QEF") as a result of which such shareholder must include its *pro rata* share of the Issuer's ordinary income and net capital gains on a current basis without regard to cash distributions or (2) to pay income taxes only when cash distributions are actually received or gains realized upon disposition of equity, but subject to potentially significant additional taxes.

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If a U.S. shareholder makes a QEF election, it is possible that such shareholder will pay taxes on "phantom income" (*i.e.*, such shareholder's *pro rata* share of the Issuer's taxable income that such shareholder must recognize currently and that is not matched by cash distributions received from the Issuer).

If a U.S. shareholder does not make a QEF election, such shareholder generally will be liable to pay income tax on the amount of cash actually received or on gains from disposition of equity. Gains from disposition of equity or from "excess distributions" (*i.e.*, distributions in excess of 125% of average distributions measured for the shorter of the shareholder's holding period or the prior three years) are generally treated as having accrued over the shareholder's entire holding period, are subject to the highest marginal rate of tax in effect in the year of accrual and are subject to an interest charge through the year in which the tax is actually paid.

The Issuer could also be a controlled foreign corporation ("CFC") depending on the percentage ownership by U.S. shareholders of its shares. If the Issuer were a CFC, certain U.S. shareholders would have to currently include their *pro rata* shares of the Issuer's "subpart F" income as ordinary income regardless of whether the Issuer has made any cash distributions and recognize ordinary income in the case of gain recognized on the sale or disposition of Preference Shares. It is expected that the Issuer's taxable income would consist of subpart F income. Consequently, a U.S. shareholder could pay taxes on "phantom income" as a result of its subpart F inclusions if the Issuer were a CFC.

Potential U.S. investors should consult with their tax advisors about the consequences of the Issuer's PFIC status, the advisability of a QEF election, the Issuer's potential CFC status and the tax consequences thereof. See "Income Tax Considerations—U.S. Taxation of Preference Shares."

The Issuer may invest in Collateral Debt Securities which may be treated (for U.S. tax purposes) as equity of other PFICs. In such event, a U.S. shareholder must make a separate QEF election with respect to any such other PFIC and the Issuer will provide, to the extent such information can be obtained by it, the information needed for U.S. shareholders to make such a QEF election. Such investments may have adverse tax consequences for U.S. shareholders.

The Issuer intends, and the Indenture requires that holders agree, to treat all Classes of Notes as debt for U.S. Federal income tax purposes. The treatment of the Class C Notes and the Class D Notes as debt of the Issuer could be challenged by the U.S. Internal Revenue Service. If a challenge were successful, the Class C Notes and the Class D 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 and the Class D Notes would be substantially the same as the consequences of investing in the Preference Shares. See "Income Tax Considerations."

Tax Considerations; Synthetic Securities. Under current U.S. Federal income tax law, the treatment of Synthetic Securities in the form of credit default swaps is unclear. Certain possible tax characterizations of a credit default swap, if adopted by the U.S. Internal Revenue Service and if applied to Synthetic Securities to which the Issuer is a party, could subject payments received by the Issuer under such Synthetic Securities to U.S. withholding or excise tax. It is also possible that because of such tax characterizations, the Issuer could be treated as engaging in a trade or business in the United States and therefore subject to net income tax. The Issuer may not be entitled to a full gross-up on such taxes under the terms of the Synthetic Securities.

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 the provisions of Title I of ERISA and/or the prohibited transaction provisions of Section 4975 of the Code as such term is defined in the

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Plan Asset Regulation issued by the United States Department of Labor. Accordingly, the Issuer intends to restrict the acquisition of Preference Shares by "Benefit Plan Investors" (as that term is defined in the Plan Asset Regulation) and Controlling Persons so that, on the Closing Date, less than 25% of the value of all Preference Shares (excluding Preference Shares held by Controlling Persons) are held by Benefit Plan Investors. There can be no assurance, however, that ownership of Preference Shares by Benefit Plan Investors will always remain at or below the 25% threshold established under the Plan Asset Regulation. Each Original Purchaser or transferee of a Regulation S 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 Exhibit A hereto. Each Original Purchaser of a Restricted Definitive Preference Share and each transferee of a Restricted Definitive Preference Share will be required to execute and deliver to the Preference Share Paying Agent an Investor Application Form, or transferee certificate (in the form attached to the Preference Share Paying Agency Agreement), as applicable. Although such letters will require each owner of Preference Shares to indemnify the Issuer for the consequences of any breach of the representations made by the owner in such letters, there can be no assurance that an owner will not breach its representations or obligations with respect to these ERISA restrictions 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.

Each Original Purchaser of a Restricted Definitive Preference Share will be required to certify whether or not it is a Controlling Person or a Benefit Plan Investor. If it is a Benefit Plan Investor, it will be required to certify that its investment in Preference Shares will not constitute 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, will not result in a violation of any Similar Law). Each Original Purchaser and each transferee of an interest in a Global Regulation S Preference Share will be required to deliver a letter in the form of Exhibit A hereto.

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.

Each Original Purchaser and each transferee of a Class A-1 Note, Class A-2 Note, Class B Note, Class C Note or Class D Note or an interest therein will be deemed to represent and (or, if required by the Indenture, a transferee will be required to certify) either that (a) it is not (and, for so long as it holds any Class A-1 Note, Class A-2 Note, Class B Note, Class C Note or Class D Note or interest therein, will not be) and is not acting on behalf of (and, for so long as it holds any Class A-1 Note, Class A-2 Note, Class B Note, Class C Note or Class D Note or interest therein, will not be acting on behalf of) an employee benefit plan subject to Title I of ERISA, a plan described in Section 4975 of the Code, a governmental or church plan subject to any Similar Law, or an entity that 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, the prohibited transaction provisions of Section 4975 of the Code, or any Similar Law, or (b) its acquisition and holding of such Note will not constitute a non-exempt 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, will not result in a violation of any Similar Law).

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

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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 Accounts and its rights under the Hedge Agreement and certain other agreements entered into as described herein, all of which have been pledged to the Trustee to secure the Issuer's obligations to the holders of the Notes (the "Noteholders"), each Hedge Counterparty and the Collateral Manager. The Issuer will not engage in any business activity other than (i) the issuance of the Notes, the Preference Shares and its ordinary shares, (ii) the acquisition, disposition of, and investment in, Collateral Debt Securities, Equity Securities and Eligible Investments, (iii) the entering into, and the performance of its obligations under the Indenture, the Notes, the Class A-1 Note Purchase Agreement, the Purchase Agreement, the Account Control Agreement, the Preference Share Paying Agency Agreement, the Collateral Management Agreement, the Hedge Agreement, the Collateral Administration Agreement, the Administration Agreement and the Master Forward Sale Agreement, (iv) the pledge of the Collateral as security for its obligations in respect of (inter alia) the Notes, (v) the ownership and management of the Co-Issuer and (vi) 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 limited liability company 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 obligor on the Preference Shares.

Certain Considerations Relating to the Cayman Islands. The Issuer is an exempted company incorporated under the laws of the Cayman Islands. As a result, it may not be possible for purchasers of the Offered Securities to effect service of process upon the Issuer within the United States or to enforce against the Issuer in United States courts judgments predicated upon the civil liability provisions of the securities laws of the United States. The Issuer will be advised by Walkers, its legal advisor in the Cayman Islands, that the United States and the Cayman Islands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters and that a final judgment for the payment of money rendered by any Federal or state court in the United States based on civil liability, whether or not predicated solely upon United States securities laws, would, therefore, not be automatically enforceable in the Cayman Islands and there is doubt as to the enforceability in the Cayman Islands, in original actions or in actions for the enforcement of judgments of the United States courts, of liabilities predicated solely upon United States securities laws. The Issuer will appoint National Corporate Research, Ltd., 225 West 34th Street, Suite 910, New York, New York 10122 as its agent in New York for service of process.

Application of the German Investment Act and the German Investment Tax Act. The following is a general summary of certain selected German tax consequences of the acquisition, ownership, and disposition of a Security under the potential application of the German Investment Tax Act (*Investmentsteuergesetz*) ("ITA") for persons who are subject to German tax. This general summary is not, and does not purport to be, a comprehensive description of all tax considerations which may be relevant to a decision to purchase an Offered Security. In particular, this summary does not consider any specific facts or circumstances that may apply to a particular investor. This summary is based on the laws of Germany currently in force and as applied on the date hereof, which are subject to change, possibly with retroactive or retrospective effect.

The Issuer will be acquiring and disposing of a diversified portfolio of assets consisting of CDO Obligations, Other ABS, Guaranteed Asset-Backed Securities and Synthetic Securities. Due to this fact

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and to further circumstances, a German resident Noteholder could be viewed as having acquired in substance units of a foreign investment fund, that is, an asset that represents units in respect of a portfolio of assets within the meaning of the German Investment Act (*Investmentgesetz*) ("IA"), which portfolio consists of securities falling within the scope of the IA and is invested according to the principle of risk diversification as required by §§ 1, 2nd sentence, 2(8) IA. As a consequence, the Offered Securities may not be publicly distributed in Germany and nothing in this Offering Circular shall be construed as such a public offering. The offering of the Offered Securities in Germany is permissible only under the German private placement rules for foreign investment units.

It should be noted that pursuant to an interpretation letter from the German Federal Ministry of Finance dated February 15, 2005, collateralized debt obligations do not fall under the ITA if pursuant to their terms of contract no more than 20% of the assets of the issuer may be sold prior to redemption. Prompted by an initiative of the fund industry, the Federal Ministry of Finance may extend this exemption to collateralized debt obligations where at most 20% of the issuer's assets are annually available for sale in a comprehensive introductory letter on the ITA, which is currently available in draft form only (draft of March 14, 2005). Pursuant to this draft letter, collateralized debt obligations to which the said exemption from the ITA applies, would also be outside the scope of the IA. **Such exemption may not apply to the Offered Securities.** The final version of the introductory letter is anticipated to be issued in 2005.

If one or more Classes of Notes were to be qualified as investment units within the IA, the tax rules of the ITA would apply. In this case, the tax implications for the investors depend on whether the Offered Securities would form part of one of the two broad categories of fund units, in particular (1) units of funds that generally comply with certain fairly detailed calculation, notification, publication and certification requirements (so called "Transparent Funds") or (2) units of non-compliant funds (so called "Non-Transparent Funds"). Generally, the Non-Transparent Fund rules expose the investor to a form of punitive taxation. By contrast, an investor in a Transparent Fund is taxed under the beneficial regime of the ITA. Where a Transparent Fund is only partially compliant, the investor, while not subject to the punitive Non-Transparent Fund rules, will not be entitled to certain tax benefits.

As a prospective purchaser of an Offered Security, please note that the Issuer will not be in a position to – and will not - comply with the calculation, notification, publication and certification requirements necessary for any of the Offered Securities to be considered as units in a Transparent Fund or a partially Transparent Fund. Instead you should expect that if one or more Classes of Notes were to be qualified as investment units these units would be qualified as units in a Non-Transparent Fund. In consequence, you would be taxed on the distributions made in respect of the Offered Securities plus annually on 70% of the excess of the last redemption price over the first redemption price determined in respect of the Offered Securities in the calendar year; and in any event, at least 6% of the last redemption price determined in each calendar year would be assessed. If a redemption price is not determined, the exchange or market price is used to calculate the taxable amount. Further, you would be taxed on 6% of the consideration for the redemption or disposal of the Offered Securities (so-called "Interim Profit Taxation").

You are therefore strongly advised to consult your own tax advisor as to the tax consequences of the purchase, ownership and disposition of any Offered Security.

Limited Source of Funds to Pay Expenses of the Issuer. The funds available to the Issuer to pay certain of its operating costs and expenses (including Other Administrative Expenses) on any Distribution Date prior to payment of other amounts in accordance with the Priority of Payments are limited (see "Description of the Notes—Priority of Payments"). In the event that such funds are not sufficient to pay the costs and expenses incurred by the Issuer, the ability of the Issuer to operate effectively may be

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impaired and it may not be able to defend or prosecute legal proceedings brought against it or which it might otherwise bring to protect the interests of the Issuer.

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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. After the Closing Date, copies of the Indenture may be obtained by prospective investors upon request to the Trustee at 9062 Old Annapolis Road, Columbia, Maryland 21045, Attention: CDO Trust Services-Kleros Preferred Funding.

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, all of the Class C Notes are entitled to receive payments *pari passu* among themselves and all of the Class D Notes are entitled to receive payments *pari passu* among themselves. Except as otherwise described in the Priority of Payments with respect to the payment of principal during a Pro Rata Pay Period, the relative order of seniority of payment of each Class of Notes on each Distribution Date is as follows: *first*, Class A-1 Notes including payment of Commitment Fee, *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Notes and, *fifth*, the Class D Notes, with 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 and (solely with respect to the Class A-1 Notes) Commitment Fee on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full. During a Sequential Pay Period, except as otherwise described in the Priority of Payments with respect to application of Interest Proceeds, no payment of principal of any Class of Notes will be made until all principal of, and accrued and unpaid interest and Commitment Fee on, the Notes of each Class that is Senior to such Class and that remain outstanding have been 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 subject in the case of any Synthetic Security Counterparty Account to the security interest of the related Synthetic Security Counterparty in such Account.

Payments of principal of and interest and (solely with respect to the Class A-1 Notes) Commitment Fee 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.

Drawdown

<u>Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes and Preference Shares</u>

All of the Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes and Preference Shares will be issued on the Closing Date. The entire principal amount of the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes will be advanced on the Closing Date.

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Class A-1 Notes

All of the Class A-1 Notes will be issued on the Closing Date, but only U.S.$740,000,000 of the principal of the Class A-1 Notes will be advanced on the Closing Date. Pursuant to the Class A-1 Note Purchase Agreement dated as of the Closing Date among the Issuer, the Co-Issuer, the Trustee and the holders from time to time of the Class A-1 Notes, subject to compliance with the conditions set forth therein, the Collateral Manager, on behalf of the Co-Issuers, may request (and the holders of the Class A-1 Notes (or any Liquidity Provider with respect to such holders) will be obligated to make) monthly advances under the Class A-1 Notes until the aggregate principal amount advanced under the Class A-1 Notes equals U.S.$850,000,000 during the period (the "Commitment Period") starting on and including the Closing Date and ending on and excluding the date (the "Commitment Period Termination Date") that is the earliest of (i) the first Business Day after the Ramp-Up Completion Date; (ii) the redemption of the Class A-1 Notes in full; (iii) the first date on which the Aggregate Undrawn Amount of the Class A-1 Notes has been reduced to zero; (iv) the date of the occurrence of certain Events of Default specified in the Indenture; (v) the sale, foreclosure or other disposition of the Collateral under the Indenture or (vi) satisfaction and discharge of the Indenture as provided therein. Any reference herein to "Commitments" in respect of any Class A-1 Notes at any time shall mean the maximum aggregate outstanding principal amount of advances (whether at the time funded or unfunded) that the holder of such Class A-1 Note (or any Liquidity Provider with respect to such holder) is obligated from time to time under the Class A-1 Note Purchase Agreement to make to the Issuer.

During the Commitment Period, the Collateral Manager, on behalf of the Co-Issuers, may borrow amounts under the Class A-1 Notes (a "Borrowing" and the date of any such Borrowing, a "Borrowing Date"); *provided* that (i) the aggregate amount of Borrowings under the Class A-1 Notes may not in any event exceed the aggregate amount of Commitments in respect of the Class A-1 Notes, (ii) there may be no more than four Borrowings prior to and including the Ramp-Up Completion Date and (iii) at the time of and immediately after giving effect to such Borrowing, no Event of Default or Default has occurred and is continuing or would result from such Borrowing. Except as the holders of the Class A-1 Notes shall otherwise agree, Borrowings shall be made only on the 26th day of each month (or if such day is not a Business Day, the next Business Day) and on the Ramp-Up Completion Date or as otherwise provided in the Class A-1 Note Purchase Agreement; *provided* that the final Borrowing may be made in the same month as any other Borrowing, and may be made on any Business Day. The Class A-1 Note Purchase Agreement will provide that advances under the Class A-1 Notes will be made by holders of such Notes *pro rata*, based on the amount of their respective Commitments.

The aggregate principal amount of any Borrowing in respect of the Class A-1 Notes (taken as a whole) will be an integral multiple of U.S.$1,000 and at least U.S.$5,000,000. Each Borrowing will be made *pro rata* according to the unused portion of the Commitments in respect of the Class A-1 Notes. On or prior to the fifth Business Day immediately preceding each Borrowing Date, the Collateral Manager, on behalf of the Co-Issuers, will provide notice to each Class A-1 Noteholder (with a copy to the Trustee) of the Issuer's intention to effect a Borrowing. The Collateral Manager, on behalf of the Co-Issuers, will direct the holders of the Class A-1 Notes to pay the proceeds of each Borrowing directly to MLI to satisfy the obligations of the Issuer to MLI under the Master Forward Sale Agreement, unless the Trustee directs such holders to make such payment to the Trustee instead.

On the Commitment Period Termination Date, the aggregate undrawn amount of the Class A-1 Notes, if any, will be reduced to zero. If there is a partial redemption of the Class A-1 Notes, in accordance with the Priority of Payments due to the failure of the Issuer to satisfy any Coverage Test, there will be a corresponding reduction in the Commitments.

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The Issuer expects to draw the remaining undrawn amount of the Class A-1 Notes on the Ramp-Up Completion Date, unless the Collateral Manager determines prior to the last day on which it may deliver a borrowing request, that on the Ramp-Up Completion Date the sum of the Aggregate Principal Balance of the Collateral Debt Securities that the Issuer has purchased or committed to purchase on such date plus the Aggregate Principal Balance of all Eligible Investments purchased with Principal Proceeds on deposit in the Principal Collection Account will be less than $1,000,000,000, in which event the amount drawn will be only the amount which the Issuer requires to purchase all Collateral Debt Securities which the Issuer will purchase or commit to purchase on the Ramp-Up Completion Date. Any portion of such drawing not paid to MLI under the Master Forward Sale Agreement will be deposited in the Uninvested Proceeds Account and applied either (i) to purchase Collateral Debt Securities which the Issuer either committed to purchase on or prior to the Ramp-Up Completion Date or needs to purchase in order to obtain a Rating Confirmation, or (ii) as distributions as Principal Proceeds or Interest Proceeds on the first Distribution Date after a Rating Confirmation or a Rating Confirmation Failure. Accordingly, the Collateral Manager (on behalf of the Issuer) will submit a request to the Class A-1 Noteholders for the final Borrowing in an amount equal to the Aggregate Undrawn Amount, at least five Business Days prior to the Ramp-Up Completion Date, unless the Collateral Manager determines that the Issuer will not have purchased (or committed to purchase) Collateral Debt Securities with an Aggregate Principal Amount (together with any Principal Proceeds thereof) equal to at least U.S.$1,000,000,000.

Prior to the Commitment Period Termination Date, each holder of Class A-1 Notes (if it has an unfunded commitment) will be required to satisfy the Rating Criteria. If any such holder of Class A-1 Notes shall at any time prior to the Commitment Period Termination Date fail to satisfy the Rating Criteria specified in the Class A-1 Note Purchase Agreement, the Issuer will have the right under the Class A-1 Note Purchase Agreement to, and will be obligated under the Indenture to, replace such holder with another entity that meets such ratings requirement (by requiring the replaced holder to transfer all of its rights and obligations in respect of the Class A-1 Notes to the transferee entity), unless such holder funds its commitment; *provided* that the foregoing will not apply to a holder that has fully funded its commitment to make advances in respect of the Class A-1 Notes held by it. The "Rating Criteria" will be satisfied on any date with respect to any holder of Class A-1 Notes if (a) the short term debt, deposit or similar obligations of such purchaser (or the obligations of the guarantor of such holder's obligations) are on such date rated "P-1" by Moody's and at least "A-1" by Standard & Poor's and Fitch or (b) such holder is then entitled under a Liquidity Facility to borrow loans from, or sell Class A-1 Notes to, one or more financial institutions (each, a "Liquidity Provider") so long as the short-term debt, deposit or similar obligations of each such Liquidity Provider are on such date rated "P-1" by Moody's and at least "A-1" by Standard & Poor's and Fitch. A "Liquidity Facility" is a liquidity agreement providing for the several commitments of the Liquidity Providers party thereto to make loans to, or purchase Class A-1 Notes from, a holder of Class A-1 Notes up to in an aggregate principal amount at any one time outstanding equal to the aggregate undrawn principal amount of Class A-1 Notes held by such holder. The purchase of Class A-1 Notes (whether in connection with the initial placement or in a subsequent transfer) by any purchaser who does not satisfy the Rating Criteria set forth in clause (a) of the definition thereof at the time of such purchase (if such purchaser will have an unfunded commitment) but who is then entitled to the benefits of a Liquidity Facility described in clause (b) of such definition will be subject to the requirement that each Rating Agency confirm that the acquisition of Class A-1 Notes by such purchaser will not result in a downgrade or withdrawal of its then current rating, if any, of any Class of Notes.

If a holder of an interest in a Class A-1 Note fails to timely fund its share of any Borrowing or if it pays its remaining unfunded balance upon failure to satisfy the Rating Criteria, the Class A-1 Note Purchase Agreement authorizes the Trustee to deliver to such holder a Definitive Note in exchange for its interest in a Global Note, and, if a holder receives a payment of interest in respect of any day prior to the date on which it has paid the Trustee its *pro rata* share of a Borrowing, it is obligated under the Class A-1

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Note Purchase Agreement to pay such interest to the Trustee for distribution among the holders of interests in Class A-1 Notes which have timely paid their *pro rata* shares of such Borrowing.

Interest

The Class A-1 Notes will bear interest at a floating rate *per annum* equal to LIBOR (determined as described herein) plus 0.25%. The Class A-2 Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 0.48%. The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 0.60%. The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 1.50%. The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 2.65%. 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 Aggregate Outstanding Amount (or, in the case of a Borrowing with respect to the Class A-1 Notes, the amount of such Borrowing) 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) (i) in the case of the initial Interest Period, the period from and including the Closing Date (or, in the case of a Borrowing with respect to the Class A-1 Notes, the period from and including the Borrowing Date of such Borrowing) to but excluding the first applicable Distribution Date, and (ii) thereafter, the period from and including such Distribution Date immediately following the last day of the immediately preceding Interest Period to but excluding the next succeeding Distribution Date.

Payments of interest on the Notes will be payable in U.S. dollars quarterly in arrears on each January 6, April 6, July 6 and October 6, commencing October 6, 2005 (each a "Distribution Date"); *provided* that (i) the final Distribution Date with respect to the Notes will be the Stated Maturity, (ii) if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day and (iii) the Accelerated Maturity Date shall be a Distribution Date.

So long as any Class of Notes is outstanding, if any Coverage Test applicable to such Class is not satisfied on any Determination Date related to any Distribution Date, Interest Proceeds (and then Principal Proceeds, if needed) that would otherwise be distributed to the Preference Shareholders or to make payments in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem the Notes in accordance with the Priority of Payments until each Coverage Test is satisfied. See "Description of the Notes—Priority of Payments."

So long as any Class A-1 Notes, Class A-2 Notes or Class B Notes are outstanding (or the Commitment Period Termination Date has not occurred), any interest due on the Class C Notes which is not paid as a result of the operation of the Priority of Payments on any Distribution Date (any such interest, "Class C Deferred Interest Amount") shall be deferred and added to the Aggregate Outstanding Amount of the Class C Notes, and shall not be considered "due and payable" until the Distribution Date on which funds are available to pay such Class C Deferred Interest Amount in accordance with the Priority of Payments; provided that no accrued interest on the Class C Notes shall become Class C Deferred Interest Amount unless Class A-1 Notes, Class A-2 Notes or Class B Notes are then outstanding or the Commitment Period Termination Date has not occurred. Class C Deferred Interest Amount accrued to any Distribution Date shall bear interest equal to LIBOR plus 1.50% *per annum* and shall be payable on the first Distribution Date on which funds are permitted to be used for such purpose in accordance with the Priority of Payments. Upon the payment of Class C Deferred Interest Amount, the Aggregate Outstanding Amount of the Class C Notes will be reduced by the amount of such payment.

So long as any Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes are outstanding (or the Commitment Period Termination Date has not occurred), any interest due on the Class

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D Notes which is not paid as a result of the operation of the Priority of Payments on any Distribution Date (any such interest, "Class D Deferred Interest Amount") shall be deferred and added to the Aggregate Outstanding Amount of the Class D Notes, and shall not be considered "due and payable" until the Distribution Date on which funds are available to pay such Class D Deferred Interest Amount in accordance with the Priority of Payments; *provided* that no accrued interest on the Class D Notes shall become Class D Deferred Interest Amount unless Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes are then outstanding or the Commitment Period Termination Date has not occurred. Class D Deferred Interest Amount accrued to any Distribution Date shall bear interest equal to LIBOR plus 2.65% *per annum* and shall be payable on the first Distribution Date on which funds are permitted to be used for such purpose in accordance with the Priority of Payments. Upon the payment of Class D Deferred Interest Amount, the Aggregate Outstanding Amount of the Class D 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 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 which is not punctually paid or duly provided for on the applicable Distribution Date or at Stated Maturity and which remains unpaid. So long as any Class A Notes or Class B Notes are Outstanding, the Class C Deferred Interest Amount, and so long as any Class A Notes, Class B Notes or Class C Notes are Outstanding, the Class D Deferred Interest Amount, shall not constitute Defaulted Interest.

Definitions

"Aggregate Outstanding Amount" means, when used with respect to any of the Notes at any time, the aggregate principal amount of such Notes outstanding at such time. Except as otherwise expressly provided herein, (a) the Aggregate Outstanding Amount of Class A-1 Notes at any time shall not include the Aggregate Undrawn Amount, (b) the Aggregate Outstanding Amount of any Class C Notes at any time shall include the Class C Deferred Interest Amount with respect to such Notes at such time and (c) the Aggregate Outstanding Amount of any Class D Notes at any time shall include the Class D Deferred Interest Amount with respect to such Notes at such time.

"Interest Period" means (i) in the case of the initial Interest Period, the period from and including the Closing Date (or, in the case of a Borrowing with respect to the Class A-1 Notes, the period from and including the Borrowing Date of such Borrowing) to but excluding the first applicable Distribution Date and (ii) thereafter, the period from and including the Distribution Date immediately following the last 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 the Notes for such Interest Period will be determined by the Trustee, as calculation agent (the "Calculation Agent"), in accordance with the following provisions:

1. "LIBOR" shall equal the offered rate, as determined by the Calculation Agent, for U.S. dollar deposits 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 reported by Bloomberg Financial Markets Commodities News, 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.

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2. 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), as reported by Bloomberg Financial Markets Commodities News, 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 U.S. dollar deposits of three months (or as set forth below in clause 3.) (*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 the arithmetic mean of such quotations. 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 U.S. 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.

3. 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 1. and 2. above, one of which shall be determined as if the maturity of the U.S. 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 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 1. and 2. above as if the maturity of the U.S. dollar deposits referred to therein were a period of time equal to seven days.

4. If the Calculation Agent is required but is unable to determine a rate in accordance with either procedure described in clauses 1. or 2. 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.

5. If the Calculation Agent is required but is unable to determine a rate in accordance with any of the procedures described in clauses 1., 2. or 4. above, LIBOR with respect to such Interest Period will be calculated on the last day of such Interest Period and shall be the arithmetic mean of the Base Rate for each day during such Interest Period.

For purposes of clauses 1., 3., 4. and 5. 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 2. above, all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one thirty-second of a percentage point.

6. "LIBOR," for purposes of calculating the Weighted Average Spread with respect to Pledged Collateral Debt Securities paying interest at a floating rate not expressed as a stated spread above LIBOR will be determined by the Calculation Agent in accordance with the following provisions:

(a) LIBOR for any interest period of a Pledged Collateral Debt Security shall equal the offered rate, as determined by the Calculation Agent, for U.S. dollar deposits of a term of one month that appears on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the

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purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, as of 11:00 a.m. (London time) on the applicable date of determination.

(b) If, on any date of determination, 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), as reported by Bloomberg Financial Markets Commodities News, 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 U.S. dollar deposits of one month, by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such date of determination made by the Calculation Agent to the Reference Banks. If, on any date of determination, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean. If, on any date of determination, 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 date of determination for U.S. dollar deposits for the term of one month, to the principal London offices of leading banks in the London interbank market.

(c) If the Calculation Agent is required but is unable to determine a rate in accordance with either procedure described in clauses (a) or (b) 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 date of determination for negotiable U.S. dollar certificates of deposit of major U.S. money market banks having a remaining maturity closest to the Designated Maturity.

For purposes of clauses (a) and (c) 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 (b) above, all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one thirty-second of a percentage point.

"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, National Association, 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 is selected by the Calculation Agent.

"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" mean four major banks in the London interbank market, selected by the Calculation Agent.

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

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) the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will notify the Co-Issuers, the Collateral Manager, the

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Trustee, each Paying Agent (other than the Preference Share Paying Agent), the Depositary, each Hedge Counterparty, the Irish Stock Exchange (so long as any Class of Notes is listed thereon) and, if applicable, Euroclear and Clearstream, Luxembourg of the applicable *per annum* rate (the "Note Interest Rate") for each Class of Notes for the next Interest Period and the amount of interest for such Interest Period payable on the related Distribution Date in respect of each U.S.$1,000,000 principal amount of the Notes (or, in the case of the Class A-1 Notes, the aggregate funded principal amount) of each Class (rounded to the nearest cent, with half a cent being rounded upward). The Calculation Agent will also specify to the Co-Issuers and the Collateral Manager the quotations upon which the Note Interest Rates are based. The Calculation Agent will in any event notify the Issuer before 7:00 p.m. (London time) on each LIBOR Determination Date if it has not determined and is not in the process of determining the Note Interest Rates and the applicable amount of periodic interest for the Notes with respect to such Interest Period, together with its reasons therefor.

The determination of the Note Interest Rate and the Interest Distribution Amount with respect to each Class of the Notes by the Calculation Agent will (in the absence of manifest error) be final and binding upon all parties.

"Designated Maturity" means (a) with respect to Class A-1 Notes (i) for the first Interest Period for a Borrowing made under the Class A-1 Notes, the number of calendar days from and including the relevant Borrowing Date to but excluding the Distribution Date immediately following the Interest Period in which such Borrowing is made, (ii) for each Interest Period after the first Interest Period for a Borrowing made under the Class A-1 Notes (other than the Interest Period ending on the Stated Maturity), three months and (iii) for the Interest Period ending on the Stated Maturity, the number of calendar days from and including the first day of such Interest Period to but excluding the final Distribution Date and (b) with respect to Class A-2 Notes, Class B Notes, Class C Notes and Class D 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 the Stated Maturity), three months and (iii) for the Interest Period ending on the Stated Maturity, the number of calendar days from and including the first day of such Interest Period to but excluding the final Distribution Date.

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 U.S. Dollar 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 the Notes for each Interest Period by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

If and for so long as any Class of Notes is listed on the Irish Stock Exchange and for so long as the rules of such stock exchange so require, the Trustee will inform the Irish Listing Agent of the Aggregate Outstanding Amount of each Class of Notes following each Distribution Date and if any Class of Notes does not receive scheduled payments of principal or interest on a Distribution Date and the Irish Listing Agent will arrange for such information to be published in the Irish Stock Exchange's Daily Official List.

If and for so long as any Class of Notes is listed on the Irish Stock Exchange and the rules of such exchange shall so require, the Co-Issuers will have a paying agent in Ireland.

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Commitment Fee on Class A-1 Notes

A commitment fee ("Commitment Fee") will accrue on the undrawn principal amount of the Class A-1 Notes for each day from and including the Closing Date to but excluding the date the Commitment Period Termination Date, at a rate *per annum* equal to 0.05%, applied to the average daily undrawn principal amount during each Interest Period. Commitment Fee will be payable (to the holder of the Class A-1 Notes which has an unfunded commitment) quarterly in arrears on each Distribution Date and will rank *pari passu* with the payment of interest on the Class A-1 Notes. Commitment Fee will be computed on the basis of a 360-day year and the actual number of days elapsed. No Class of Notes other than the Class A-1 Notes will be entitled to a commitment fee.

Principal

The Stated Maturity of the Notes is the October, 2041 Distribution Date. Each Class of Notes is scheduled to mature at the applicable Stated Maturity 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.

Payments of principal may be made on the Notes only in the following circumstances (subject, in each case, to the Priority of Payments): (a) in connection with an Optional Redemption, Tax Redemption, Auction Call Redemption or Accelerated Maturity Date, (b) on any Distribution Date from Interest Proceeds (and then Principal Proceeds, if needed), upon the failure of the Issuer to meet any Coverage Test as of the related Determination Date, (c) in the event of a Rating Confirmation Failure, (d) to pay any Class C Deferred Interest Amount and any Class D Deferred Interest Amount and (e) on each Distribution Date from Principal Proceeds in accordance with the Priority of Payments to pay principal of each Class of Notes.

On any Distribution Date for which the Determination Date occurs during a Sequential Pay Period, principal of the Notes will be paid in direct order of seniority, with the principal of Class A-1 Notes being paid prior to the payment of principal of Class A-2 Notes, the principal of Class A-2 Notes being paid prior to the payment of the principal of Class B Notes, the principal of Class B Notes being paid prior to the payment of the principal of Class C Notes and the principal of Class C Notes being paid prior to the payment of the principal of Class D Notes; *provided*, *however*, that to cure a breach of a Class C/D Coverage Test, Interest Proceeds will be applied to pay principal of only the Class C Notes and the Class D Notes, on a *pro rata* basis.

On any Distribution Date for which the Determination Date does not occur during a Sequential Pay Period (a "Pro Rata Pay Period"), Principal Proceeds will be applied in accordance with the Priority of Payments, to pay (i) *first*, *pro rata*, the principal amount of the Class A-1 Notes, Class A-2 Notes and the Class B Notes in an aggregate amount up to the Class A/B *Pro Rata* Principal Payment Cap, (ii) *second*, the principal amount of the Class C Notes in an amount up to the Class C *Pro Rata* Principal Payment Cap and (iii) *third*, the principal amount of the Class D Notes.

A Sequential Pay Period will commence on the earliest to occur of (i) any Determination Date on which the Issuer does not satisfy any applicable Coverage Test, (ii) the first Determination Date on which an Event of Default has occurred and is continuing, (iii) the first Measurement Date on which the Class A Sequential Pay Test is not satisfied, (iv) the first date on which the Aggregate Principal Balance of the

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Collateral Debt Securities has fallen below 50% of the Net Outstanding Portfolio Collateral Balance on the Ramp-Up Completion Date and (v) the first date on which the rating of any outstanding Class of Notes by Standard & Poor's has been reduced or withdrawn. If a Sequential Pay Period has commenced as a result of a breach of a Coverage Test, such Sequential Pay Period shall cease on the first Measurement Date that such Coverage Test has been cured, and a Pro Rata Pay Period shall commence on the immediately succeeding Distribution Date. If the Sequential Pay Period commences for any other reason, a Pro Rata Pay Period may not commence on any future Distribution Date.

If a Class A/B Coverage Test is not satisfied on any Determination Date on or after the Ramp-Up Completion Date, Interest Proceeds (and, if necessary to cure such breach, Principal Proceeds), will be applied on the related Distribution Date to cure the breach of such Coverage Test by paying principal of the Class A-1 Notes, the Class A-2 Notes and the Class B Notes, in direct order of seniority. In the case of the breach of a Class C/D Coverage Test, (i) Interest Proceeds will be applied to pay principal of the Class C Notes and the Class D Notes, *pro rata*, and, (ii) if necessary to cure such breach, Principal Proceeds will be applied to pay principal of the Class A-1 Notes, then the Class A-2 Notes, then the Class B Notes, then the Class C Notes and then the Class D Notes.

See "—Priority of Payments—Principal Proceeds," "—Priority of Payments—Interest Proceeds," "—Optional Redemption and Tax Redemption" "—Mandatory Redemption" and "—Auction Call Redemption."

Mandatory Redemption

The Notes will, on any Distribution Date, be subject to mandatory redemption in the event that a Coverage Test is not satisfied on the related Determination Date. Any such redemption will be effected from Interest Proceeds (and then Principal Proceeds, if needed) 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 and will otherwise be effected as described below under "—Priority of Payments."

If the Co-Issuers fail to receive Rating Confirmation from the Rating Agencies prior to the first Determination Date that is at least 30 Business Days following the Ramp-Up Completion Date and delivery to the Rating Agencies of a Ramp-Up Notice, on the first Distribution Date following such Rating Confirmation Failure, the Issuer will be required to apply Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities) to pay, in part, the principal amount of the Notes in direct order of seniority. To the extent that such Uninvested Proceeds are insufficient to redeem the Notes in order to obtain a Rating Confirmation, on such Distribution Date and on each Distribution Date thereafter, Interest Proceeds and, to the extent that Interest Proceeds are insufficient to redeem the Notes in order to obtain a Rating Confirmation, Principal Proceeds, will be applied in accordance with the Priority of Payments, to the payment of principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes and, *fifth*, the Class D Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation. See "Security for the Notes—Ramp-Up Period."

Auction Call Redemption

In accordance with the procedures set forth in the Indenture (the "Auction Procedures"), the Trustee shall, at the expense of the Issuer, conduct an auction (an "Auction") of the Collateral Debt Securities if, prior to the Distribution Date occurring in July 2013, the Notes have not been redeemed in full. The Auction shall be conducted not later than (1) ten Business Days prior to the Distribution Date occurring in July 2013 and (2) if the Notes are not redeemed in full on the prior Distribution Date, ten Business Days prior to each Distribution Date thereafter until the Notes have been redeemed in full (each

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such date, an "Auction Date"). Any of the Preference Shareholders, the Collateral Manager, the Trustee or their respective affiliates may, but shall not be required to, bid at the Auction. The Trustee shall sell and transfer all of the Collateral Debt Securities (which may be divided into up to eight subpools) to the highest bidder therefor (or the highest bidder for each subpool) at the Auction; 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 from at least two qualified bidders identified by the Collateral Manager (including the winning qualified bidder) for (x) the purchase of the Collateral Debt Securities or (y) the purchase of each subpool;

(iii) the Collateral Manager certifies that the highest auction price would result in Sale Proceeds from all of the Collateral Debt Securities (or the related subpools constituting all of the Collateral Debt Securities), which, together with other Available Redemption Funds, would be at least equal to the Total Senior Redemption Amount; and

(iv) the bidder(s) who offered the highest auction price for the Collateral Debt Securities (or the related subpools) enter(s) into a written agreement with the Issuer (which the Issuer shall execute if the conditions set forth in (i) through (iii) above are satisfied, which execution shall constitute certification by the Issuer that such conditions have been satisfied) that obligates the highest bidder (or the highest bidder for each subpool) to purchase all of the Collateral Debt Securities (or the relevant subpool) 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.

If all of the conditions set forth in clauses (i) through (iv) above have been met, and these conditions are certified to the Trustee by the Issuer, then the Trustee shall sell and transfer the Collateral Debt Securities (or the related subpool), without representation, warranty or recourse, to such highest bidder (or the highest bidder for each subpool, 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 (x) redeem the Notes in whole but not in part at the applicable Redemption Price (exclusive of installments of principal, interest and (solely with respect to the Class A-1 Notes) Commitment Fee due on or prior to such date; *provided* that payment of which shall have been made or duly provided for, to the holders of the Notes as provided in the Indenture), (y) pay the remaining portion of the Total Senior Redemption Amount in accordance with the Priority of Payments and (z) make a payment to the Preference Share Paying Agent for distribution to the Preference Shareholders, subject to the provisions of The Companies Law (2004 Revision) of the Cayman Islands governing the declaration and payment of dividends, in an amount equal to any portion of such purchase price remaining after the application contemplated by the foregoing clauses (x) and (y) (but at least equal to the Preference Share Redemption Date Amount), in each case on the Distribution Date immediately following the relevant Auction Date (such redemption, an "Auction Call Redemption").

If any of the foregoing conditions is not met with respect to any Auction or if the highest bidder (or the highest bidder for any subpool, as the case may be) fails to pay the purchase price on or 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) the Trustee shall give notice of the withdrawal of the redemption notice on such sixth Business Day to the Issuer, the Collateral Manager, each Hedge Counterparty and the holders of the Notes, (c) subject to clause (d) 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 (d) unless the Notes are redeemed in full

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prior to the next succeeding Auction Date, the Trustee shall conduct another Auction on the next succeeding Auction Date.

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 Special-Majority-in-Interest of Preference Shareholders at the applicable Redemption Price therefor on any Distribution Date; *provided* that no such Optional Redemption may be effected prior to the Distribution Date occurring in July 2009.

In addition, upon the occurrence of a Tax Event and if the Tax Materiality Condition is satisfied, the Issuer may redeem the Notes (such redemption, a "Tax Redemption") on any Distribution Date, in whole but not in part, at the applicable Redemption Price therefor (i) at the direction of the holders of a 66⅔% in Aggregate Outstanding 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 due and payable to such Class on any Distribution Date (each such Class, an "Affected Class") or (ii) at the direction of a Special-Majority-in-Interest of Preference Shareholders.

No Optional Redemption or Tax Redemption may be effected, however, unless Available Redemption Funds at least equal the amount sufficient to pay (in accordance with the Priority of Payments) the Total Senior Redemption Amount.

The "Total Senior Redemption Amount" means, as of any Distribution Date, the aggregate amount required (without duplication) (a) to make all payments of accrued and unpaid Administrative Expenses, to pay all amounts payable as of such date (including any termination payments and any accrued interest thereon) by the Issuer to the Hedge Counterparty pursuant to any Hedge Agreement (assuming for these purposes that any such Hedge Agreement has been terminated by reason of an event of default or termination event as to which the Issuer is the sole defaulting or affected party), to pay any fees and expenses incurred by the Trustee or the Collateral Manager in connection with the sale of Collateral Debt Securities and to pay any accrued and unpaid Senior Management Fees and accrued and unpaid Deferred Subordinate Management Fees, but excluding payments to the Preference Share Paying Agent for distribution to the Preference Shareholders, (b) to redeem all the Notes on the scheduled Redemption Date at the applicable Redemption Prices, together with all accrued and unpaid interest and (solely with respect to the Class A-1 Notes) Commitment Fee to (but excluding) the date of redemption and (c) solely in the case of an Auction Call Redemption pursuant to the Indenture, to make a payment to the Preference Share Paying Agent for distribution to the Preference Shareholders in an amount equal to the Preference Share Redemption Date Amount, if any (or such lesser amount as is agreed by Preference Shareholders whose aggregate Voting Percentages at such time equal 100% of all Preference Shareholders' Voting Percentages at such time).

Unless a Special-Majority-in-Interest of Preference Shareholders have directed the Issuer to redeem the Preference Shares on such Distribution Date, the amount of Collateral sold in connection with such Optional Redemption or Tax Redemption shall not exceed the amount necessary for the Issuer to obtain the Total Senior Redemption Amount. In addition, no Tax Redemption may be effected unless the Tax Materiality Condition is satisfied.

Notwithstanding the immediately preceding paragraph, in connection with any Tax Redemption, holders of at least 100% of the Aggregate Outstanding 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

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payable to holders of such Affected Class (and the Total Senior Redemption Amount will be reduced accordingly).

A "Tax Event" occurs 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, 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, (iii) a Hedge Counterparty or Synthetic Security Counterparty is required to deduct or withhold from any payment under the Hedge Agreement or a Synthetic Security on account of any tax and such Hedge Counterparty or Synthetic Security Counterparty is not obligated to make a gross up payment to the Issuer or the Issuer is required to make a "gross up" payment under a Hedge Agreement or under a Synthetic Security. The "Tax Materiality Condition" will be satisfied during any 12-month period if the sum of the following exceeds U.S.$1,000,000: (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 of any "gross up" payments required to be paid by the Issuer on account of tax under a Synthetic Security or a Hedge Agreement 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 a Hedge Agreement or by the Issuer or any Synthetic Security Counterparty under a Synthetic Security.

Redemption Procedures

Notice of an Optional Redemption, Auction Call 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 (the "Redemption Date"), to each holder of Notes at such holder's address in the register maintained by the registrar under the Indenture, each Hedge Counterparty and to each Rating Agency. In addition, the Trustee will, if and for so long as any Class of Notes 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 designated by 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. For so long as any Preference Shares are listed on the Channel Islands Stock Exchange, the Trustee shall (i) cause the notice of any Auction Call Redemption, Optional Redemption or Tax Redemption to be delivered to the CISX Sponsor (for delivery to the Channel Islands Stock Exchange) not less than 10 Business Days prior to the applicable record date with regard to the Preference Shares and (ii) promptly notify the CISX Sponsor of such Auction Call Redemption, Optional Redemption or Tax Redemption.

The Notes may not be redeemed pursuant to an Optional Redemption or Tax Redemption unless at least six Business Days before the scheduled Redemption Date, the Issuer shall have furnished to the Trustee and each Hedge Counterparty, and certified to the Trustee that the Issuer has entered into a binding agreement or agreements with an entity that either satisfies the Rating Condition or 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 (or are guaranteed by an entity with such a credit

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rating) from each Rating Agency (i) at least equal to the rating of the most Senior Class of Notes then outstanding or (ii) whose short term unsecured debt obligations have a credit rating of "P-1" by Moody's (and, if rated "P-1," are not on watch for possible downgrade by Moody's), at least "A-1" by Standard & Poor's and at least "F1" from Fitch, to sell, not later than the Business Day immediately preceding the scheduled Redemption Date, all or part of the Collateral Debt Securities at a purchase price which, when added to other Available Redemption Funds on the relevant Distribution Date, is at least equal to an amount sufficient to pay the Total Senior Redemption Amount (including the additional amount payable by the Issuer under the Hedge Agreement on a Redemption Date).

Any such notice of redemption with respect to an Optional Redemption or a Tax Redemption must be withdrawn by the Issuer on the fifth Business Day prior to the scheduled Redemption Date by written notice to the Trustee, each Hedge Counterparty and the holders of the Notes if on or prior to such date (i) the Issuer has not delivered to the Trustee a certification that (1) in its judgment based on calculations included in such certification, the Available Redemption Funds will be sufficient to pay the Total Senior Redemption Amount, (2) an approved pricing service has confirmed each sales price contained in such certification (if such price is quoted on an approved pricing service) and (3) the sale prices of such Collateral Debt Securities are not below the fair market value of such Collateral Debt Securities or (ii) the independent accountants appointed by the Issuer have not confirmed in writing the calculations made in such certification. Any notice of redemption with respect to an Auction Call Redemption must be withdrawn under the circumstances described under "—Auction Call Redemption" herein. 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. During the period when a notice of redemption may be withdrawn, the Issuer may not terminate any Hedge Agreement and if any Hedge Agreement shall become subject to early termination during such period, the Issuer is obligated to enter into a replacement Hedge Agreement.

Redemption Price

The amount payable in connection with any Optional Redemption, Auction Call Redemption or Tax Redemption of any Note (with respect to each Class of Notes, the "Redemption Price") will be an amount (determined without duplication) equal to (i) the Aggregate Outstanding Amount of such Note being redeemed plus (ii) accrued interest thereon (including Defaulted Interest and accrued, unpaid and uncapitalized interest on Defaulted Interest, if any) plus (iii) in the case of any reduction in the related Commitment in respect of any Class A-1 Note, an amount equal to accrued Commitment Fee on the amount of such reduction.

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, interest on and (solely with respect to the Class A-1 Notes) Commitment Fee on any Note will be made to the person in whose name such Note is registered fifteen 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

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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. Notes must be surrendered at the offices designated by any Paying Agent under the Indenture in order to receive the applicable Redemption Price, unless the holder provides 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. Pursuant to the Indenture, Custom House Administration and Corporate Services Limited in Dublin, Ireland will be appointed as paying agent in Ireland with respect to the Notes (the "Paying Agent in Ireland").

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.

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 or (solely with respect to the Class A-1 Notes) Commitment Fee 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 Issuer or 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, at the request of the Issuer, adopt and employ, at the expense of the Co-Issuers, 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.

If any withholding tax is imposed on the Issuer's payment under the Notes to any Noteholder, such tax shall reduce the amount of such payment otherwise distributable to such Noteholder. The Trustee is authorized and directed under the Indenture to retain from amounts otherwise distributable to any Noteholder sufficient funds for the payment of any tax that is legally owed by the Issuer (but such authorization will not prevent the Trustee from contesting any such tax in appropriate proceedings and withholding payment of such tax, if permitted by law, pending the outcome of such proceedings). The amount of any withholding tax imposed with respect to any Noteholder will be treated as cash distributed to such Noteholder at the time it is withheld by the Trustee and remitted to the appropriate taxing authority. The Trustee will determine in its sole discretion whether to withhold tax with respect to a distribution in accordance with the Indenture. If any Noteholder wishes to apply for a refund of any such withholding tax, the Trustee will reasonably cooperate with such Noteholder in making such claim so long as such Noteholder agrees to reimburse the Trustee for any out-of-pocket expenses incurred. Failure of a holder of a Note to provide the Trustee or any Paying Agent and the Issuer with appropriate tax certificates will result in amounts being withheld from the payment to such holders. The Trustee has no obligation to determine the amount of any tax or withholding obligation on the part of the Issuer or in respect of the Collateral Debt Securities. Amounts withheld pursuant to applicable tax laws shall be considered as having been paid by the Issuer as provided in the Indenture. In the event that tax must be withheld or deducted from payments of principal or interest, neither Co-Issuer shall be obliged to make any additional payments to the holders of any Notes on account of such withholding or deduction.

Priority of Payments

With respect to any Distribution Date, collections received on the Collateral during each Due Period will be divided into Interest Proceeds and Principal Proceeds and applied in the priority set forth below under "—Interest Proceeds" and "—Principal Proceeds," respectively (collectively, the "Priority of Payments"); *provided*, that on any date during such Due Period upon which the Issuer receives interest

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payments in cash in respect of semi-annual interest paying securities, the Trustee will deposit 50% of such interest payments on semi-annual interest paying securities into the Semi-Annual Interest Reserve Account for distribution on the second Distribution Date following such Due Period. See "Security for the Notes—The Accounts—Semi-Annual Interest Reserve Account." "Due Period" means, with respect to any Distribution Date, the period from and including the 28th day of the month in which the prior Distribution Date occurred (or the Closing Date in the case of the Due Period relating to the first Distribution Date) to and excluding the 28th day of the month in which such Distribution Date occurs, except that in the case of the Due Period that is applicable to the Distribution Date relating to the Stated Maturity of the Notes, such Due Period shall end on (and include) the day preceding the Stated Maturity. Amounts that would otherwise have been payable in respect of a Pledged Collateral Debt Security on the last day of a Due Period but for such day's not being a designated business day in the Underlying Instruments shall be considered included in collections received during such Due Period.

Interest Proceeds. On each Distribution Date, and on the Accelerated Maturity Date, Interest Proceeds with respect to the related Due Period will be distributed in the order of priority (the "Interest Proceeds Waterfall") set forth below:

(1) to the payment of taxes and filing and registration fees owed by the Co-Issuers, if any;

(2) (a) *first*, to the payment to the Trustee of the accrued and unpaid Trustee Fee; (b) *second*, to the payment to the Administrator of the accrued and unpaid fees under the Administration Agreement; (c) *third*, to the payment of accrued and unpaid Trustee Expenses (other than amounts payable pursuant to indemnities) under the Indenture (and, if an Event of Default has occurred and is continuing under the Indenture, payment to the Trustee of accrued and unpaid expenses (including amounts payable pursuant to the indemnity)), (d) *fourth*, to the payment of Rating Agency Expenses; (e) *fifth*, to the payment of Trustee Expenses constituting indemnities; (f) *sixth*, to the payment of accrued and unpaid Other Administrative Expenses then due and payable; provided that all payments made pursuant to subclauses (b) through (f) of this clause (2) do not exceed on such Distribution Date U.S.$100,000 for such Due Period; and (g) *seventh*, 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 subclauses (b) through (f) of this clause (2) 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;

(3) to the payment to the Collateral Manager of accrued and unpaid Senior Management Fee and any accrued but unpaid Deferred Senior Management Fee Interest;

(4) to the payment of all amounts scheduled to be paid to any Hedge Counterparty pursuant to the Hedge Agreement, together with any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to the Hedge Agreement, other than any Deferred Termination Payment;

(5) to the payment of the Interest Distribution Amount and the Commitment Fee Amount with respect to, *first*, the Class A-1 Notes and, *second*, the Class A-2 Notes;

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(6) to the payment of the Interest Distribution Amount with respect to the Class B Notes;

(7) (a) if the Class A/B Overcollateralization Test is not satisfied on the related Determination Date and if any Class A-1 Note, Class A-2 Note or Class B Note remains outstanding, to the payment of principal of, *first*, the Class A-1 Notes (with a corresponding reduction in the Commitments), *second*, the Class A-2 Notes and *third*, the Class B Notes, until the Class A/B Overcollateralization Test is satisfied; (b) after making any application of Interest Proceeds required pursuant to clause (a), if the Class A/B Interest Coverage Test is not satisfied on the related Determination Date and if any Class A-1 Note, Class A-2 Note or Class B Note remains outstanding, to the payment of principal of *first*, the Class A-1 Notes (with a corresponding reduction in the Commitments), *second*, the Class A-2 Notes, and *third*, the Class B Notes, until the Class A/B Interest Coverage Test is satisfied; and (c) on each Distribution Date following the occurrence of a Rating Confirmation Failure, in the event that the Issuer is unable to obtain a Rating Confirmation, to the payment of principal of *first*, the Class A-1 Notes (with a corresponding reduction in the Commitments), *second*, the Class A-2 Notes and *third*, the Class B Notes, to the extent specified by each relevant Rating Agency in order to obtain a Rating Confirmation;

(8) to the payment of the Interest Distribution Amount with respect to the Class C Notes;

(9) to the payment of the Interest Distribution Amount with respect to the Class D Notes;

(10) (a) if the Class C/D Overcollateralization Test is not satisfied on the related Determination Date and if any Note remains outstanding, to the payment of principal of, the Class C Notes and the Class D Notes on a *pro rata* basis (in accordance with their respective Aggregate Outstanding Amounts), until the Class C/D Overcollateralization Test is satisfied; (b) after making any application of Interest Proceeds required pursuant to clause (a), if the Class C/D Interest Coverage Test is not satisfied on the related Determination Date and if any Note remains outstanding, to the payment of principal of the Class C Notes and Class D Notes on a *pro rata* basis (in accordance with their respective Aggregate Outstanding Amounts), until the Class C/D Interest Coverage Test is satisfied; and (c) on each Distribution Date following the occurrence of a Rating Confirmation Failure, in the event that the Issuer is unable to obtain a Rating Confirmation, to the payment of principal of *first*, the Class A-1 Notes (with a corresponding reduction in the Commitments), *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes and *fifth*, the Class D Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation;

(11) to the payment of the Class C Deferred Interest Amount (in reduction of the Aggregate Outstanding Amount of the Class C Notes);

(12) to the payment of the Class D Deferred Interest Amount (in reduction of the Aggregate Outstanding Amount of the Class D Notes);

(13) to the payment of *first*, accrued and unpaid Trustee Expenses and, *second*, accrued and unpaid Other Administrative Expenses, in each case in the priority of and to

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the extent not paid pursuant to clause (2) above (whether as the result of the limitations on amounts set forth therein or otherwise);

(14) to the payment to the Collateral Manager of accrued and unpaid Subordinate Management Fee and any accrued but unpaid Deferred Subordinate Management Fee Interest; and

(15) to the Preference Share Paying Agent for distribution to the Preference Shareholders as a dividend on the Preference Shares or as a payment on redemption or repurchase of the Preference Shares, in each case, as provided in the Preference Share Documents.

Principal Proceeds. On each Distribution Date and on the Accelerated Maturity Date, Principal Proceeds with respect to the related Due Period will be distributed in the order of priority ("Principal Proceeds Waterfall") set forth below:

(1) to the payment of the amounts referred to in clauses (1) to (6) of the Interest Proceeds Waterfall in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(2) after giving effect to any application of Uninvested Proceeds and Interest Proceeds, (a) if the Class A/B Overcollateralization Test is not satisfied on the related Determination Date and if any Class A-1 Note, Class A-2 Note or Class B Note remains Outstanding, to the payment of principal of, *first*, the Class A-1 Notes (with a corresponding reduction in the Commitments), *second*, the Class A-2 Notes and, *third*, the Class B Notes, until the Class A/B Overcollateralization Test is satisfied or each such Class is paid in full; (b) after making any application of Principal Proceeds required pursuant to clause (a) if the Class A/B Interest Coverage Test is not satisfied on the related Determination Date and if any Class A-1 Note, Class A-2 Note or Class B Note remains Outstanding, to the payment of principal of, *first*, the Class A-1 Notes (with a corresponding reduction in the Commitments), *second*, the Class A-2 Notes and, *third*, the Class B Notes, until the Class A/B Interest Coverage Test is satisfied or each such Class is paid in full; and (c) commencing on the first Distribution Date following the occurrence of a Rating Confirmation Failure, to the payment of principal of, *first*, the Class A-1 Notes (with a corresponding reduction in the Commitments), *second*, the Class A-2 Notes and, *third*, the Class B Notes, to the extent specified by each relevant Rating Agency in order to obtain a Rating Confirmation with respect to the Class A-1 Notes, the Class A-2 Notes and the Class B Notes;

(3) after giving effect to any application of Uninvested Proceeds and Interest Proceeds, and Principal Proceeds pursuant to clause (2) of the Principal Proceeds Waterfall, (a) if the Class C/D Overcollateralization Test is not satisfied on the related Determination Date and if any Class A-1, Class A-2 or Class B Notes remain Outstanding, to the payment of principal of, *first*, the Class A-1 Notes (with a corresponding reduction in the Commitments), *second*, the Class A-2 Notes and, *third*, the Class B Notes, until the Class C/D Overcollateralization Test is satisfied or each such Class is paid in full; (b) after making any application of Principal Proceeds required pursuant to clause (a) if the Class C/D Interest Coverage Test is not satisfied on the related Determination Date and if any Class A-1, Class A-2 or Class B Notes remain outstanding, to the payment of principal of, *first*, the Class A-1 Notes (with a corresponding reduction in the Commitments), *second*, the Class A-2 Notes, and *third*, the Class B Notes, until the Class C/D Interest Coverage Test is satisfied or each such Class is paid in full; and (c) commencing on the first Distribution Date following the occurrence of a Rating Confirmation Failure, to the payment of principal of, *first*, the Class A-1 Notes (with a corresponding reduction in the Commitments), *second*, the

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Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes, and, *fifth*, the Class D Notes, to the extent specified by any relevant Rating Agency in order obtain a Rating Confirmation with respect to the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes;

(4) for each Distribution Date in respect of which the related Determination Date occurs during the Sequential Pay Period, to the payment of principal of, *first*, the Class A-1 Notes (with a corresponding reduction in the Commitments) until the Class A-1 Notes have been paid in full, *second*, the Class A-2 Notes until the Class A-2 Notes have been paid in full and *third*, the Class B Notes until the Class B Notes have been paid in full;

(5) for each Distribution Date in respect of which the related Determination Date does not occur during the Sequential Pay Period, to the payment of principal of the Class A-1 Notes, the Class A-2 Notes and the Class B Notes, *pro rata*, in accordance with their Aggregate Outstanding Amounts (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds, prior to clause (5) of the Principal Proceeds Waterfall, and including, in the case of the Class A-1 Notes, an amount equal to any Commitments), in an aggregate amount up to the Class A/B *Pro Rata* Principal Payment Cap for such Distribution Date;

(6) to the payment of Interest Distribution Amount with respect to Class C Notes, but only to the extent not paid in full pursuant to clause (8) of the Interest Proceeds Waterfall;

(7) (a) if, after giving effect to application of Uninvested Proceeds, Interest Proceeds and Principal Proceeds pursuant to clauses (2) through (6) of the Principal Proceeds Waterfall, the Class C/D Overcollateralization Test is not satisfied and if any Class C Note remains Outstanding, to the payment of principal of the Class C Notes, until the Class C/D Overcollateralization Test is satisfied; and (b) after making any application of Interest Proceeds required pursuant to clause (a), if the Class C/D Interest Coverage Test is not satisfied on the related Determination Date and if any Class C Note remains outstanding, to the payment of principal of the Class C Notes, until the Class C/D Interest Coverage Test is satisfied;

(8) for each Distribution Date in respect of which the related Determination Date occurs during the Sequential Pay Period, to the payment of principal of the Class C Notes until the Class C Notes have been paid in full;

(9) for each Distribution Date in respect of which the related Determination Date does not occur during the Sequential Pay Period, to the payment of principal of the Class C Notes in an aggregate amount up to the Class C Pro Rata Principal Payment Cap for such Distribution Date;

(10) to the payment of Interest Distribution Amount with respect to Class D Notes, but only to the extent not paid in full pursuant to clause (9) under "—Interest Proceeds" above;

(11) (a) if, after giving effect to application of Uninvested Proceeds and Interest Proceeds, and Principal Proceeds pursuant to clauses (2) through (10) of the Principal Proceeds Waterfall, the Class C/D Overcollateralization Test is not satisfied and if any Class D Note remains Outstanding, to the payment of principal of the Class D Notes, until the Class C/D Overcollateralization Test is satisfied; and (b) after making any application of Interest Proceeds required pursuant to clause (a), if the Class C/D Interest Coverage Test is not satisfied on the related Determination Date and if any Class D Note remains outstanding, to the payment of principal of the Class D Notes, until the Class C/D Interest Coverage Test to be satisfied;

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(12) to the payment of principal of the Class D Notes until such Class of Notes has been paid in full;

(13) to the payment of amounts referred to in clauses (13) and (14) of the Interest Proceeds Waterfall in the same order of priority specified therein, but only to the extent not paid thereunder; and

(14) to the Preference Share Paying Agent for distribution to the Preference Shareholders as a dividend on the Preference Shares or as a payment on redemption or repurchase of the Preference Shares, in each case, as provided in the Preference Share Documents.

On the first Distribution Date following a Rating Confirmation Failure, Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities) will be treated as Principal Proceeds and applied to the payment of principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes and, *fifth*, the Class D Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation. In addition, if such Uninvested Proceeds are insufficient to pay such amount, on such Distribution Date and on each Distribution Date thereafter, the Issuer will use Interest Proceeds and then Principal Proceeds to make such payments (and in the same manner and order of priority).

Any Interest Proceeds or Principal Proceeds applied to pay principal of the Class C Notes will be applied first to pay and Class C Deferred Interest Amount, and any Interest Proceeds or Principal Proceeds applied to pay principal of the Class D Notes will be applied first to pay any Class D Deferred Interest Amount.

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 under any clause of the Interest Proceeds Waterfall or the Principal Proceeds Waterfall 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.

Any amounts to be paid to the Preference Share Paying Agent pursuant to clause (15) of the Interest Proceeds Waterfall or clause (14) of the Principal Proceeds Waterfall will be released from the lien of the Indenture. Notwithstanding the foregoing, on the Redemption Date, the Stated Maturity or the Accelerated Maturity Date, in the event that after the application of Principal Proceeds and the application of Interest Proceeds under clauses (1) through (14) of the Interest Proceeds Waterfall the principal amount of the Notes has not been paid in full, any amount distributable under clause (15) of the Interest Proceeds Waterfall shall be applied first to pay such principal (in order of seniority) of the Notes prior to making any distribution to the Preference Share Paying Agent.

If the Notes and the Preference Shares have not been redeemed prior to the Stated Maturity, it is expected that the Issuer will sell all of the Collateral Debt Securities and all Eligible Investments then standing to the credit of the Accounts (other than the Hedge Counterparty Collateral Account, any Synthetic Security Issuer Account and any Synthetic Security Counterparty Account) and sell or liquidate all other Collateral, and 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 the amounts due to each Hedge Counterparty), (iii) principal of and interest (including the Class C Deferred Interest Amount, the Class D Deferred Interest Amount, Defaulted Interest and interest on Defaulted Interest, if any) and Commitment Fee on the Notes. Net proceeds from such liquidation and available cash remaining (after all payments required pursuant to the Indenture and the payment of the costs and expenses of such liquidation, the establishment of adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer, the payment to the Preference Shareholders of the aggregate

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liquidation preference of the Preference Shares, the return of U.S.$ 1,000 of capital contributed to the Issuer by, and the payment of a U.S.$1,000 profit fee to, the owner of the Issuer's ordinary shares) will be distributed to the Preference Shareholders in accordance with the Preference Share Documents and Cayman Islands law.

Certain Definitions

"Account Control Agreement" means the agreement, dated as of the Closing Date, among the Issuer, the Trustee and the Custodian relating to the Accounts.

"Adjusted Issue Price" means, with respect to any security, (a) the price at which such security was issued upon original issuance *minus* (b) if the Issue Price Adjustment with respect to such security on such date of determination is positive, such Issue Price Adjustment *plus* (c) if the Issue Price Adjustment with respect to such security on such date of determination is negative, the absolute value of such Issue Price Adjustment.

"Administrative Expenses" means, with respect to any Distribution Date, (a) Trustee Expenses and (b) all amounts (including indemnities) due or accrued with respect to such Distribution Date and payable by the Issuer or the Co-Issuer to (i) the Administrator in respect of fees and expenses under the Administration Agreement, (ii) the independent accountants, agents and counsel of the Issuer for reasonable fees and expenses (including amounts payable in connection with the preparation of tax forms on behalf of the Co-Issuers), (iii) the Collateral Manager in respect of fees and expenses pursuant to the Collateral Management Agreement, (iv) any other Person in respect of any governmental fee, registered office fee, charge or tax in relation to the Issuer or the Co-Issuer (in each case as certified by an Authorized Officer of the Issuer or the Co-Issuer to the Trustee), (v) the Initial Purchaser in respect of amounts payable to it under the Purchase Agreement, (vi) the Rating Agencies in respect of Rating Agency Expenses, (vii) any other Person in respect of any other fees or expenses permitted under the Indenture and the documents delivered pursuant to or in connection with the Indenture and the Notes and (viii) any exchange or any listing agent or paying agent appointed in connection with the Notes or the Preference Shares on any exchange; *provided* that Administrative Expenses shall not include (A) any amounts due or accrued with respect to the actions taken on or in connection with the Closing Date, (B) amounts payable in respect of the Notes, (C) any Management Fee payable to the Collateral Manager and (D) amounts payable under any Hedge Agreement.

"Aggregate Undrawn Amount" means at any time, with respect to the Class A-1 Notes, the aggregate amount of the unutilized Commitments in respect of all Class A-1 Notes.

"Applicable Recovery Rate" means, with respect to any Collateral Debt Security on any Measurement Date, the lowest of (a) an amount equal to the percentage for such Collateral Debt Security set forth in the Moody's recovery rate matrix set forth in Part I of Schedule A hereto (or, in the case of a Synthetic CDO Security, the percentage assigned to such security by Moody's) in (x) the table corresponding to the relevant Specified Type of CDO Obligation or Other ABS, (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 ratio (expressed as a percentage) of (i) the Issue of which such Collateral Debt Security is a part relative to (ii) the total capitalization of (including both debt and equity securities issued by) the relevant issuer of or obligor on such Collateral Debt Security, determined on the original issue date of such Collateral Debt Security; *provided* that (1) if the Collateral Debt Security is a Corporate Guaranteed Security, the recovery rate will be 30%, (2) if such Collateral Debt Security is an ABS 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 the Collateral Debt Security is a Synthetic Security, the recovery rate will be that assigned by Moody's), (b) an amount equal

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to the percentage for such Collateral Debt Security set forth in the Standard & Poor's recovery rate matrix set forth in Part II of Schedule A hereto (or, in the case of a Synthetic CDO Security, the percentage assigned to such security by Standard & Poor's) in (x) the applicable table and (y) the row in such table opposite the Standard & Poor's Rating of such Collateral Debt Security at the time of issuance and (z) the column in such table below the then current rating of the most senior Class of Notes outstanding; *provided* that if such Collateral Debt Security is a Synthetic Security, the recovery rate will be that assigned by Standard & Poor's and (c) an amount equal to the percentage for such Collateral Debt Security set forth in the Fitch recovery rate matrix set forth in Part III of Schedule A hereto.

"Average Quarterly Asset Amount" means, with respect to any Distribution Date, the average of the Net Outstanding Portfolio Collateral Balance on the first day of the related Due Period and the last day of the related Due Period.

"Benchmark Rate" means (a) with respect to Collateral Debt Securities that bear interest at a floating rate, the offered rate 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 second London Banking Day preceding the date of acquisition of such Collateral Debt Securities and (b) with respect to Collateral Debt Securities that do 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 Securities, 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 Securities on such date of acquisition.

"Benchmark Rate Change" means, as of any date of determination with respect to any Fixed Rate Security, an amount (expressed as a percentage, which may be positive or negative) equal to (a) the Benchmark Rate with respect to such Fixed Rate Security on such date of determination minus (b) the Benchmark Rate with respect to such Fixed Rate Security on its date of original issuance.

"Borrowing" means, following the initial amount borrowed on the Closing Date, additional amounts borrowed by the Issuer under the Class A-1 Notes during the Commitment Period.

"Borrowing Date" means during the Commitment Period, the 26th day of each month (or if such day is not a Business Day, the next Business Day) on which a Borrowing is made and the Ramp-Up Completion Date.

"Business Day" means a day on which commercial banks in each of New York, New York, and the city in which the corporate trust office of the Trustee is located and, in the case of the final payment of principal of any Note, the place of presentation of such Note. To the extent action is required of the Paying Agent in Ireland, Dublin, Ireland will be considered in determining "Business Day" for purposes of determining when such Paying Agent action is required.

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

"Class A-1 Note Purchase Agreement" means the purchase agreement dated on or prior to the Closing Date among the Co-Issuers, the beneficial owners from time to time of the Class A-1 Notes and the Trustee, as modified and supplemented and in effect from time to time.

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"Class A Sequential Pay Ratio" means, 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 sum of (i) the Aggregate Outstanding Amount of the Class A-1 Notes including any Commitments plus (ii) the Aggregate Outstanding Amount of the Class A-2 Notes.

"Class A Sequential Pay Test" means, for so long as any Class A Notes remain outstanding, a test satisfied on any Determination Date occurring on or after the Ramp-Up Completion Date if the Class A Sequential Pay Ratio on such Measurement Date is equal to or greater than 107.40%.

"Class A/B *Pro Rata* Principal Payment Cap" means, on any Distribution Date, an amount equal to (a) the amount of Principal Proceeds available in accordance with the Priority of Payments to make payments under clause (5) of the Principal Proceeds Waterfall multiplied by (b) the Aggregate Outstanding Amount of the Class A-1 Notes, Class A-2 Notes and Class B Notes (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (5) of the Principal Proceeds Waterfall and, in the case of the Class A-1 Notes, including any Commitments) divided by (c) the Aggregate Outstanding Amount of the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds, prior to clause (5) of the Principal Proceeds Waterfall and, in the case of the Class A-1 Notes, including any Commitments).

"Class C Deferred Interest Amount" means so long as any Class A-1 Notes, Class A-2 Notes or Class B Notes are outstanding (or the Commitment Period Termination Date has not occurred), any interest due on the Class C Notes which is not paid as a result of the operation of the Priority of Payments on any Distribution Date.

"Class C *Pro Rata* Principal Payment Cap" means, on any Distribution Date, an amount equal to (a) the amount of Principal Proceeds available in accordance with the Priority of Payments to make payments under clause (9) of the Principal Proceeds Waterfall multiplied by (b) the Aggregate Outstanding Amount of the Class C Notes (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (9) of the Principal Proceeds Waterfall) divided by (c) the Aggregate Outstanding Amount of the Class C Notes and Class D Notes (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (9) of the Principal Proceeds Waterfall).

"Class D Deferred Interest Amount" means so long as any Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes are outstanding, (or the Commitment Period Termination Date has not occurred), any interest due on the Class D Notes which is not paid as a result of the operation of the Priority of Payments on any Distribution Date.

"Commitment Fee" means with respect to the Class A-1 Notes, the commitment fee payable by the Issuer to the holders of the Class A-1 Notes on the Aggregate Undrawn Amount of the Class A-1 Notes, for each day from and including the Closing Date to but excluding the Commitment Period Termination Date at a rate *per annum* equal to 0.05%.

"Commitment Fee Amount" means with respect to the Class A-1 Notes as of any Distribution Date, the sum of (a) the aggregate amount of Commitment Fee accrued during the Interest Period ending on such Distribution Date plus (b) any Commitment Fee Amount due but not paid in any previous Interest Period plus (c) any Defaulted Interest in respect of any Commitment Fee Amount due but not paid on any prior Distribution Date (which Defaulted Interest shall accrue at the Note Interest Rate applicable to the Class A-1 Notes).

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"Commitment Period" means the commitment period commencing with and including the Closing Date and ending on but excluding the Commitment Period Termination Date.

"Commitment Period Termination Date" means the earliest to occur of (i) the first Business Day after the Ramp-Up Completion Date; (ii) the redemption of the Class A-1 Notes in full; (iii) the first date on which the Aggregate Undrawn Amount of the Class A-1 Notes has been reduced to zero; (iv) the date of the occurrence of certain Events of Default specified in the Indenture; (v) the sale, foreclosure or other disposition of the Collateral under the Indenture or (vi) satisfaction and discharge of the Indenture as provided therein.

"Custodian" means the custodian under the Account Control Agreement.

"Defaulted Security" means any Collateral Debt Security:

(1) as to which the issuer 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 in writing to the Trustee, in its reasonable business judgment, that such payment default is due to non-credit and non-fraud related reasons 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 or failure to pay has been cured by the payment of all amounts that were originally scheduled to have been paid;

(2) as to which, as a result of the occurrence of an event of default, all amounts due under such Collateral Debt Security have been accelerated prior to its stated maturity or such Collateral Debt Security can be immediately so accelerated, unless such rights of acceleration have been waived or such default cured;

(3) as to which the Collateral Manager knows the issuer thereof is in default (without giving effect to any applicable grace period or waiver) as to payment (if, in the Collateral Manager's reasonable business judgment, such default is due to non-credit related reasons, beyond the lesser of (x) the number of days until the next Determination Date and (y) five Business Days) of principal and/or interest on another obligation (and such payment default has not been cured through the payment in cash of principal and interest then due and payable or waived by all of the holders of such security) which is senior or *pari passu* in right of payment to such Collateral Debt Security and which obligation and such Collateral Debt Security are secured by common collateral; *provided* that a Collateral Debt Security shall not constitute a "Defaulted Security" under this clause (3) if (A) the Collateral Manager has notified the Trustee and the Rating Agencies in writing of its decision not to treat such Collateral Debt Security as a Defaulted Security and (B) such decision satisfies the Rating Condition with respect to Standard & Poor's;

(4) 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, in the reasonable business judgment of the Collateral Manager, amounts to a diminished financial obligation or is intended solely to enable the relevant obligor to avoid defaulting in the performance of its payment obligations under such Collateral Debt Security; *provided* that a Collateral Debt Security shall not constitute a "Defaulted Security" under this clause (4) 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" and satisfies paragraphs (1) through (4), (6) through (11) (except with respect to the prohibition on a Credit Risk Security), (13) through (18) and (29) of the Eligibility Criteria at the time of acquisition thereof;

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(5) that is rated "Ca" or "C" by Moody's or is rated "Caa3" by Moody's and is placed by Moody's on a watchlist for possible downgrade by Moody's or has no rating from Moody's but the Issuer has obtained a credit estimate from Moody's that such Collateral Debt Security has a Moody's Rating Factor of 10,000 or higher;

(6) that is rated "CC," "D" or "SD" (or has had its rating withdrawn) by Standard & Poor's and the definition of Rating will not apply for purposes of this clause; *provided* that, if the Rating Condition is satisfied as to Standard & Poor's, this clause (6) may be changed by written notice from the Collateral Manager to the Issuer and to the Trustee;

(7) that is a Defaulted Synthetic Security;

(8) that is a Synthetic Security Counterparty Defaulted Obligation;

(9) that is a Deliverable Obligation that would not satisfy paragraphs (1) through (4), (6) through (11) (except with respect to the prohibition on a Credit Risk Security), (13) through (18) and (29) of the Eligibility Criteria at the time such Deliverable Obligation is delivered to the Issuer; or

(10) that is rated "CC," "D" or "SD" (or has had its rating withdrawn) by Fitch and the definition of Rating will not apply for purposes of this clause; *provided* that, if the Rating Condition is satisfied as to Fitch, this clause (10) may be changed by written notice from the Collateral Manager to the Issuer and to the Trustee.

The Collateral Manager shall be deemed to have knowledge only of information actually received by any portfolio manager employed by the Collateral Manager who performs portfolio management functions for the Issuer or by any credit analyst who performs credit analysis functions for such portfolio manager with respect to the Issuer. Notwithstanding the foregoing, the Collateral Manager may declare any Collateral Debt Security to be a Defaulted Security if, in the Collateral Manager's reasonable business judgment, the credit quality of the issuer of such Collateral Debt Security has significantly deteriorated such that there is a reasonable expectation of payment default. Nothing in this definition shall be deemed to require any employee (including any portfolio manager or credit analyst) of the Collateral Manager to obtain, use or share with or otherwise distribute to any other person or entity (a) any information that he or she would be prohibited from obtaining, using, sharing or otherwise distributing by virtue of the Collateral Manager's internal policies relating to confidential communications or (b) material non-public information.

"Defaulted Synthetic Security" means (a) if such Synthetic Security is a Single Obligation Synthetic Security, any Synthetic Security as to which, if the related Reference Obligation were a Collateral Debt Security, such Reference Obligation would constitute a "Defaulted Security" under the definition thereof (other than any of paragraphs (7), (8) or (9) of such definition), (b) if such Synthetic Security references more than one Reference Obligation or more than one Reference Obligor, does not provide that the Issuer has any (contingent or otherwise) payment obligations to the Synthetic Security Counterparty after an initial payment thereunder, and the aggregate repayment obligation owing to the Issuer has been reduced by reason of the occurrence of one or more "credit events" or other similar circumstances, the aggregate amount of such reduction (to the extent that it is not already taken into account in the Principal Balance thereof) shall be a Defaulted Security and the remaining Principal Balance of such Synthetic Security shall not be a Defaulted Security, (c) if such Synthetic Security references more than one Reference Obligation or more than one Reference Obligor and is a Defeased Synthetic Security, any Synthetic Security as to which the Issuer has become obligated to make one or more payments to the Synthetic Security Counterparty by reason of the occurrence of one or more "credit events" or other similar circumstances (in which event a portion of the Principal Balance equal to the

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maximum payment which the Issuer may be required to make by reason of such credit event shall be a Defaulted Security and the remaining Principal Balance thereof shall not be a Defaulted Security) and (d) any Single Obligation Synthetic Security as to which a Deliverable Obligation has become deliverable to the Issuer by reason of the occurrence of one or more "credit events" or other similar circumstances; provided that, at such time (if ever) as a Deliverable Obligation is delivered in respect of such Synthetic Security, clause (9) of the definition of "Defaulted Security" will determine whether it is a Defaulted Security.

"Defeased Synthetic Security" means any Synthetic Security that requires payment by the Issuer after the date upon which it is pledged to the Trustee and that satisfies the following: (a) the Issuer has caused to be deposited in a Synthetic Security Counterparty Account an amount at least equal to the aggregate of (or the amount required under the terms of the Synthetic Security to provide for) all further payments (contingent or otherwise) that the Issuer is or may be required to make to the Synthetic Security Counterparty under the Synthetic Security; (b) the agreement relating to such Synthetic Security contains "non-petition" provisions with respect to the Issuer and "limited recourse" provisions limiting the Synthetic Security Counterparty's rights in respect of the Synthetic Security to the funds and other property credited to the Synthetic Security Counterparty Account related to such Synthetic Security; and (c) the agreement relating to such Synthetic Security contains provisions to the effect that upon the occurrence of an "Event of Default" or "Termination Event" (other than an "Illegality" or "Tax Event"), if any, where the Synthetic Security Counterparty is the sole "Defaulting Party" or the sole "Affected Party" ("Event of Default," "Termination Event," "Illegality," "Tax Event," "Defaulting Party" or "Affected Party," as applicable, as such terms are defined in the ISDA Master Agreement relating to such Synthetic Security) (x) the Issuer may terminate its obligations under such Synthetic Security and upon such termination and payment of any termination amount payable under the Synthetic Security, any lien in favor of the Synthetic Security Counterparty over its related Synthetic Security Counterparty Account will be terminated and (y) upon payment of any termination amount payable under the Synthetic Security, the Issuer will no longer be obligated to make any payments to the Synthetic Security Counterparty with respect to such Synthetic Security.

"Deferred Interest PIK Bond" means a PIK Bond 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 Bond has resumed and all capitalized and deferred interest has been paid in accordance with the terms of the Underlying Instruments. For purposes of the Class A/B Overcollateralization Test and the Class C/D Overcollateralization Test only, a PIK Bond with a Moody's Rating of at least "Baa3" will not be a Deferred Interest PIK Bond unless the deferral of payment of interest thereon has occurred for the lesser of (x) two consecutive payment periods and (y) a period of one year.

"Deferred Termination Payment" means a termination payment due to an "event of default" as to which any Hedge Counterparty is the sole defaulting party or a "termination event" (other than "illegality" or "tax event" (as such terms are defined in the Hedge Agreement)) as to which the Hedge Counterparty is the sole "affected party" (with all such terms to have the definitions set forth in the Hedge Agreement) (each such event, a "Subordinated Termination Event").

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

"Equity Security" means (1) any security that does not entitle the holder thereof to receive periodic payments of interest and one or more installments of principal, unless it is an Asset Backed Security that is an Interest Only Security or a Principal Only Security, or (2) any class of a REMIC that is not a regular interest as defined in Section 860G(a)(1) of the Code.

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"Excepted Property" means (a) the U.S.$1,000 of capital contributed by the owners of the Issuer's ordinary shares in accordance with the Preference Share Documents and U.S.$1,000 representing a profit fee to the owners of the Issuer's ordinary shares, together with, in each case, any interest accruing thereon and the bank account in which such cash is held and (b) the membership interests of the Co-Issuer and any assets of the Co-Issuer.

"Fixed Payment Rate" means, with respect to a Deemed Floating Rate Security, a rate equal to the fixed rate that the Issuer agrees to pay to the relevant Hedge Counterparty under the related Deemed Floating Rate Hedge Agreement.

"Form Approved Synthetic Security" means one or more Synthetic Securities, the form of the documents in respect of which has satisfied the Rating Condition with respect to Moody's and Standard & Poor's for use in this transaction.

"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 applicable for the Interest Period relating to such Class during the period from and including the immediately preceding Distribution Date to but excluding 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.

"Interest Excess" means the lesser of (a) U.S.$750,000 and (b) the difference between (i) the sum of the Aggregate Principal Balance of the Pledged Collateral Debt Securities on the Ramp-Up Completion Date *plus* all Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Ramp-Up Completion Date *plus* all Principal Proceeds in the Collection Accounts on the Ramp-Up Completion Date *minus* (ii) U.S.$1,000,000,000; *provided*, *however*, that the Interest Excess shall be zero if a Rating Confirmation Failure occurs.

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

"Interest Proceeds" means, with respect to any Due Period, the sum (without duplication) of: (1) all payments of interest on the Collateral Debt Securities (other than Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities) received in Cash by the Issuer during such Due Period (excluding amounts required to be deposited in the Semi-Annual Interest Reserve Account); (2) all accrued interest received in Cash by the Issuer during such Due Period with respect to Collateral Debt Securities sold by the Issuer (including Sale Proceeds or other recoveries received in respect of Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities in excess of the greater of the original purchase price paid by the Issuer or the par or face amount thereof), (3) all payments of interest (including any amount representing the accreted portion of a discount from the face amount of an investment) received in cash by the Issuer prior to the Distribution Date next following such Due Date on investments in any Account (except (i) any Synthetic Security Issuer Account, (ii) any Hedge Counterparty Collateral Account and (iii) interest on a security in a Synthetic Security Counterparty Account which is payable to the Synthetic Security Counterparty) and all payments of principal, including repayments, received in cash by the Issuer prior to the Distribution Date next following such Due Date on Eligible Investments purchased with amounts from the Interest Collection Account; (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 Collateral Debt Securities and Eligible Investments (other than fees and commissions received in respect of Defaulted Securities, Deferred Interest PIK Bonds and

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Written Down Securities and yield maintenance payments, in each case, included in Principal Proceeds pursuant to clause (5), (7) or (8) of the definition thereof); (5) interest on securities credited to any Synthetic Security Counterparty Account that are not payable to a Synthetic Security Counterparty and all payments by a Synthetic Security Counterparty under a Defeased Synthetic Security; (6) all amounts on deposit in the Expense Account, the Semi-Annual Interest Reserve Account and the Interest Reserve Account that are transferred to the Payment Account for application as Interest Proceeds as described below under "Security for the Notes—The Accounts—Expense Accounts"; (7) for the first Distribution Date following a Rating Confirmation, Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Ramp-Up Completion Date in an amount equal to the Interest Excess; and (8) all scheduled payments received pursuant to any Hedge Agreements (excluding any payments received by the Issuer by reason of an event of default or termination event or that are received as a result of any partial termination of such Hedge Agreement other than the portion thereof consisting of accrued scheduled payments) less any scheduled payments payable by the Issuer under such Hedge Agreement during such Due Period; provided that Interest Proceeds shall in no event include (i) any payment or proceeds specifically defined as "Principal Proceeds" in the definition thereof, or (ii) any Excepted Property. Payments received by or made by the Issuer under a Hedge Agreement on or prior to a Distribution Date shall be deemed to have been received during the Due Period related to such Distribution Date.

"Issue Price Adjustment" means, as of any date of determination, (a) with respect to any Floating Rate Security, 0%, (b) with respect to any Fixed Rate Security upon original issuance thereof, 0% and (c) with respect to any Fixed Rate Security on any date after the original issuance thereof, the product (calculated by the Collateral Manager) of (i) the current duration of such Fixed Rate Security (calculated by the Collateral Manager on a commercially reasonable basis in accordance with the standard of care set forth in the Collateral Management Agreement) multiplied by (ii) the Benchmark Rate Change on such date of determination multiplied by (iii) the price (expressed as a percentage of par) at which such security was issued upon original issuance.

"Measurement Date" means any of the following: (a) the Closing Date; (b) the Ramp-Up Completion Date; (c) any date after the Ramp-Up Completion Date on which the Issuer disposes of a Collateral Debt Security or on which a Collateral Debt Security becomes a Defaulted Security, a Deferred Interest PIK Bond or a Written Down Security; (d) each Determination Date; (e) the last Business Day of each calendar month (other than any calendar month before a month in which a Determination Date occurs and any calendar month ending prior to the Ramp-Up Completion Date); and (f) with reasonable prior notice to the Issuer, the Collateral Manager and the Trustee, any other Business Day that any Rating Agency or holders of more than 50% of the Aggregate Outstanding 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.

"Net Outstanding Portfolio Collateral Balance" means as of any Measurement Date, an amount equal to (a) the Aggregate Principal Balance as of such Measurement Date of all Pledged Collateral Debt Securities (other than Defaulted Securities and Deferred Interest PIK Bonds) plus (b) the aggregate amount of all Principal Proceeds and Uninvested Proceeds held as cash and the Aggregate Principal Balance of all Eligible Investments 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 (without duplication) plus (c) for each Defaulted Security or Deferred Interest PIK Bond, the Calculation Amount with respect to such Defaulted Security or Deferred Interest PIK Bond, as applicable. For purposes of the "Eligibility Criteria" and for certain other purposes specified in the Indenture, on or prior to the Ramp-Up Completion Date, the Net Outstanding Portfolio Collateral Balance will equal U.S.$1,000,000,000.

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"Other Administrative Expenses" means all Administrative Expenses but excluding Trustee Expenses (other than amounts payable pursuant to any indemnity).

"PIK Bond" means (i) any security that, pursuant to the terms of the related Underlying Instruments, permits the payment of interest thereon to be deferred and capitalized as additional principal thereof or that issues identical securities in place of payments of interest in cash and (ii) expressly provides that such deferral and/or capitalization does not constitute an event of default (however denominated) under such security or the related Underlying Instruments.

"Pledged Collateral Debt Security" means, as of any date of determination, any Collateral Debt Security that has been pledged to the Trustee and has not been released from the lien of the Indenture.

"Principal Balance" or "par" means with respect to any pledged security or Collateral Debt Security, as of any date of determination, the outstanding principal amount or certificate balance of such pledged security or Collateral Debt Security; *provided* that:

(a) the Principal Balance of a Collateral Debt Security received upon acceptance of an Offer for another Collateral Debt Security, which Offer expressly states that failure to accept such Offer may result in a default under the Underlying Instruments, shall be deemed to be the Calculation Amount of such other Collateral Debt Security until such time as Interest Proceeds and Principal Proceeds, as applicable, are received when due with respect to such other Collateral Debt Security;

(b) the Principal Balance of any Synthetic Security shall be equal to (i) in the case of any Synthetic Security that does not provide that the Issuer has any (contingent or otherwise) payment obligations to the Synthetic Security Counterparty after an initial payment thereunder, the aggregate principal amount of the Synthetic Security and (ii) in the case of any Defeased Synthetic Security, the balance in the related Synthetic Security Counterparty Account reduced by the amount of any payments due and payable to the Synthetic Security Counterparty by reason of the occurrence of one or more "credit events" or other similar circumstances to the extent such payments have not yet been made;

(c) the Principal Balance of any Equity Security, unless otherwise expressly stated herein, shall be deemed to be zero;

(d) the Principal Balance of any Eligible Investment that does not pay cash interest on a current basis will be the lesser of par and the original issue price thereof;

(e) solely for the purpose of calculating the Net Outstanding Portfolio Collateral Balance in connection with either Overcollateralization Test or the Sequential Pay Test, the Principal Balance of any Written Down Security shall be deemed to be the lesser of (i) the fair market value of such Written Down Security and (ii) the Principal Balance of such Collateral Debt Security reduced to reflect (as determined by the Collateral Manager) the percentage by which the aggregate par amount of the entire issue of which such Written Down Security is a part (taking into account all securities ranking senior in priority of payment thereto and secured by the same pool of collateral) exceeds the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such issue (excluding defaulted collateral) (as reported to holders of such Written Down Security in the most recent servicer report delivered to holders of such Written Down Security in accordance with its Underlying Instruments and received by the Trustee);

(f) the Principal Balance of any Step-Up Bond shall be the sum of (i) the original issue price thereof plus (ii) the aggregate amount of interest accreted thereon to but excluding such date of determination in accordance with the provisions of the related Underlying Instruments (or any other

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agreement between the issuer thereof and the original purchasers thereof) relating to the reporting of income by the holders of, and deductions by the issuer of, such Step-Up Bond for U.S. Federal income tax purposes.

(g) solely for purposes of calculating the Net Outstanding Portfolio Collateral Balance in connection with the Overcollateralization Tests, if a Moody's Rating or Standard & Poor's Rating set forth in the table below is applicable to a Collateral Debt Security (other than a Deferred Interest PIK Bond, a Defaulted Security or a Written Down Security), then the Principal Balance of such Collateral Debt Security shall be multiplied by the lower "Discount Percentage" opposite the Moody's Rating or Standard & Poor's Rating applicable to such Collateral Debt Security in the table below:

Moody's Rating	Discount Percentage	Floor Percentage	Standard & Poor's Rating	Discount Percentage	Floor Percentage
Ba1, Ba2 or Ba3	90%	0%	BB+, BB or BB-	90%	0%
B1, B2 or B3	80%	0%	B+, B or B-	80%	0%
Below B3	50%	0%	Below B-	50%	0%

Applicable Collateral Debt Securities having a Standard & Poor's Rating of below "BBB-" shall be excluded from the operation of the foregoing provision so long as the Aggregate Principal Balance of all such Collateral Debt Securities (determined without regard to the foregoing provision) does not exceed the Floor Percentage of the Net Outstanding Collateral Balance (this Floor Percentage being satisfied first by the highest-rated Collateral Debt Securities having a Standard & Poor's Rating below "BBB-") and thereafter the Discount Percentage shall only be applied to such Collateral Debt Securities in excess of such Floor Percentage of the Net Outstanding Portfolio Collateral Balance.

Applicable Collateral Debt Securities having a Moody's Rating in any of the three rating categories shown above shall be excluded from the operation of the foregoing provision so long as the Aggregate Principal Balance of all such Collateral Debt Securities (determined without regard to the foregoing provision) does not exceed the Floor Percentage of the Net Outstanding Portfolio Collateral Balance for such rating category and thereafter the Discount Percentage shall only be applied to the outstanding principal amount or certificate balance of the applicable Collateral Debt Securities in such rating category in excess of such Floor Percentage of the Net Outstanding Portfolio Collateral Balance.

The ratings and the amounts of the Discount Percentages and the Floor Percentage with respect to Moody's or Standard & Poor's in the table above may be modified if the Rating Condition with respect to Moody's or Standard & Poor's, as applicable, has been satisfied; and

(h) solely for purposes of calculating the Net Outstanding Portfolio Collateral Balance in connection with the Class A Sequential Pay Test, if a Standard & Poor's Rating set forth in the table below is applicable to a Collateral Debt Security (other than a Deferred Interest PIK Bond, a Defaulted Security or a Written Down Security), then the Principal Balance of such Collateral Debt Security shall be multiplied by the "Discount Percentage" opposite the Standard & Poor's Rating applicable to such Collateral Debt Security in the table below:

Standard & Poor's Rating	Discount Percentage	Floor Percentage
BB+, BB or BB-	90%	0%
B+, B or B-	70%	0%
Below B-	50%	0%

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Applicable Collateral Debt Securities having a Standard & Poor's Rating of below BBB- shall be excluded from the operation of the foregoing provision so long as the Aggregate Principal Balance of all such Collateral Debt Securities (determined without regard to the foregoing provision) does not exceed the Floor Percentage of the Net Outstanding Collateral Balance (this Floor Percentage being satisfied first by the highest-rated Collateral Debt Securities having a Standard & Poor's Rating below "BBB-") and thereafter the Discount Percentage shall only be applied to such Collateral Debt Securities in excess of such Floor Percentage of the Net Outstanding Portfolio Collateral Balance.

The ratings and the amounts of the Discount Percentages and the Floor Percentage with respect to Standard & Poor's in the table above may be modified if the Rating Condition with respect to Standard & Poor's has been satisfied.

"Principal Only Security" means any debt security that does not provide for the periodic payment of interest.

"Principal Proceeds" means with respect to any Due Period, the sum (without duplication) of: (1) any Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Ramp-Up Completion Date (other than any such Uninvested Proceeds to be used to complete the purchase of Collateral Debt Securities or any Interest Excess to be applied as Interest Proceeds); (2) all payments of principal of the Collateral Debt Securities 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 on Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities (but only to the extent of the greater of (x) par or face amount of such securities and (y) the original purchase price paid by the Issuer for such Securities), 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 in cash by the Issuer during such Due Period (including as a result of the sale of any Deferred Interest PIK Bond, Defaulted Security or Written Down Security, but excluding those included in Interest Proceeds as defined above) and any amounts (other than investment income) released from a Synthetic Security Counterparty Account after payment of all amounts owing by the Issuer to a Synthetic Security Counterparty pursuant to the Indenture; (4) all payments of principal received in cash by the Issuer prior to the Distribution Date next following such Due Date 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); (5) all amendment, waiver, late payment fees and other fees and commissions, received in cash by the Issuer during such Due Period in respect of Deferred Interest PIK Bonds, Defaulted Securities and Written Down Securities (but only to the extent of par or face amount of such securities); (6) all payments received in cash by the Issuer during such Due Period that represent call, prepayment or redemption premiums; (7) yield maintenance payments received in cash by the Issuer during such Due Period; (8) all scheduled payments of interest on Deferred Interest PIK Bonds, Defaulted Securities and Written Down Securities received in cash by the Issuer during such Due Period and any other payments in respect thereof not addressed in clauses (1) through (7) above received in Cash by the Issuer during such Due Period (but only to the extent of par or face amount of such securities); (9) all other payments received by the Issuer in such Due Period in connection with the Collateral Debt Securities and Eligible Investments (other than those standing to the credit of any Hedge Counterparty Collateral Account, Synthetic Security Issuer Account or Synthetic Security Counterparty Account) that are not included in Interest Proceeds; and (10) any proceeds resulting from the termination and liquidation of any Hedge Agreement (other than the portion thereof constituting accrued scheduled payments), 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; *provided* that in no event will Principal Proceeds include the U.S.$1,000 of capital contributed

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by the owners of the ordinary shares of the Issuer in accordance with the Preference Share Documents or U.S.$1,000 representing a profit fee to the Issuer or the proceeds of the Issuer's Cayman Islands account.

"Purchase Agreement" means an agreement dated as of the Closing Date among the Initial Purchaser and the Co-Issuers relating to the placement of the Notes and Preference Shares.

"Quarterly Asset Amount" means with respect to any Distribution Date, the Net Outstanding Portfolio Collateral Balance on the first day of the related Due Period.

"Rating Agency Expenses" means with respect to any Distribution Date, all amounts due or accrued with respect to such Distribution Date and payable by the Issuer or the Co-Issuer to the Rating Agencies for fees and expenses in connection with any rating (including the annual fee payable with respect to the monitoring of any rating and any credit estimate fees and amendment fees) of the Notes, including fees and expenses due or accrued in connection with any rating of the Collateral Debt Securities not payable by the issuer thereof.

"Senior Management Fee" means the fee payable to the Collateral Manager in arrears on each Distribution Date pursuant to the Collateral Management Agreement, in an amount equal to 0.08% *per annum* of the Average Quarterly Asset Amount for such Distribution Date; *provided* that the Senior Management Fee will be payable on each Distribution Date only to the extent of funds available for such purpose in accordance with the Priority of Payments. Any accrued but unpaid Senior Management Fee will be deferred. Any unpaid Senior Management Fee that is deferred (whether as a result of the operation of the Priority of Payments as described herein or at the option of the Collateral Manager) shall be paid on the next succeeding Distribution Date(s) to the extent funds are available for such purpose in accordance with the Priority of Payments until paid in full and, except with respect to Deferred Senior Management Fee Interest payable in connection with a Deferred Senior Management Fee, shall not accrue interest.

"Sequential Pay Period"" means the period commencing on the earliest to occur of (a) any Determination Date on which the Issuer does not satisfy any applicable Coverage Test, (b) the first date on which the Aggregate Principal Balance of all Pledged Collateral Debt Securities held by the Issuer is less than 50% of the Net Outstanding Portfolio Collateral Balance on the Ramp-Up Completion Date, (c) the first Measurement Date on which the Class A Sequential Pay Test is not satisfied, (d) the first Determination Date on which an Event of Default which has occurred and is continuing and (e) the first date on which the rating of any outstanding Class of Notes by Standard & Poor's has been reduced or withdrawn *provided*, *however*, that if a Sequential Pay Period has commenced as a result of a breach of a Coverage Test, such Sequential Pay Period shall cease on the first Measurement Date that such Coverage Test has been cured, and a Pro Rata Period shall commence on the immediately succeeding Distribution Date but if such Sequential Pay Period has commenced for any other reason, a Pro Rata Pay Period may not commence on any future date.

"Single Obligation Synthetic Security" means a Synthetic Security that references only one Reference Obligation.

"Subordinate Management Fee" means the fee payable to the Collateral Manager in arrears on each Distribution Date pursuant to the Collateral Management Agreement, in an amount equal to 0.04% *per annum* of the Average Quarterly Asset Amount for such Distribution Date; *provided* that the Subordinate Management Fee will be payable on each Distribution Date only to the extent of funds available for such purpose in accordance with the Priority of Payments. Any accrued but unpaid Subordinate Management Fee will be deferred. Any unpaid Subordinate Management Fee that is deferred shall be paid on the next succeeding Distribution Date(s) to the extent funds are available for such

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purpose in accordance with the Priority of Payments until paid in full and, except with respect to Deferred Subordinate Management Fee Interest payable in connection with a Deferred Subordinate Management Fee, shall not accrue interest.

"Synthetic Security Counterparty Defaulted Obligation" means with respect to any Synthetic Security (a) (i) the long-term debt obligations of the relevant Synthetic Security Counterparty are rated "D" or "SD" by Standard & Poor's, 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; *provided* that, notwithstanding the foregoing, if at any time after such withdrawal or reduction such Synthetic Security is a Defeased Synthetic Security under which the Synthetic Security Counterparty shall provide periodically (and in no event less frequently than monthly) collateral to or for the benefit of the Issuer with a value (together with all other collateral previously transferred) equal to or greater than any termination payment that would then be due to the Issuer upon the termination of such credit default swap, such Synthetic Security shall be deemed not to be a Synthetic Security Counterparty Defaulted Obligation; or (b) the Synthetic Security Counterparty has defaulted in the performance of any of its payment or delivery obligations under the Synthetic Security.

"Trustee Expenses" means with respect to any Distribution Date, all expenses and indemnified amounts (other than fees) due or accrued with respect to such Distribution Date and payable by the Issuer or the Co-Issuer to (i) the Note Registrar, the Trustee or any co-trustee pursuant to the Indenture, (ii) the Collateral Administrator under the Collateral Administration Agreement, (iii) the Preference Share Paying Agent under the Preference Share Paying Agency Agreement and (iv) the Custodian under the Account Control Agreement.

"Trustee Fee" means the fee payable, in accordance with the Priority of Payments, to Wells Fargo Bank, National Association in its capacities (or any successor to it in such capacities) as (i) Note Registrar and Trustee hereunder, (ii) Collateral Administrator under the Collateral Administration Agreement and (iii) Preference Share Paying Agent under the Preference Share Paying Agency Agreement in an amount, for (i), (ii) and (iii) combined, equal to, for each Distribution Date, 0.011% *per annum* of the Net Outstanding Portfolio Collateral Balance as of the first day of the related Due Period.

"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, (a) the net proceeds received by the Issuer on the Closing Date from the initial issuance of the Notes and the Preference Shares and the Up-Front Payment, to the extent such proceeds (i) have not been deposited in the Expense Account or the Interest Reserve Account, (ii) are not subject to a commitment to invest, or have not been invested in, Collateral Debt Securities, in each case in accordance with the Indenture or (iii) have not been deposited in a Synthetic Security Counterparty Account and (b) the net proceeds received by the Issuer after the Closing Date, from any Borrowing under the Class A-1 Notes to the extent such proceeds are not subject to a commitment to invest, or have not been invested, in Collateral Debt Securities pursuant to the Master Forward Sale Agreement or deposited in a Synthetic Security Counterparty Account.

"Warehouse Agreement" means the Warehouse Agreement dated as of October 19, 2004 between Merrill Lynch International and the Collateral Manager, as amended.

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"Written Down Security" means as of any date of determination, 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), as determined by the Collateral Manager using customary procedures and information available in the servicer reports received by the Trustee relating to such Written Down Security.

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 amounts payable to each Class of Notes Subordinate to such Class and to the Preference Share Paying Agent, for distribution to the Preference Shareholders, and certain other expenses (including the Subordinate Collateral Management Fee) and whether and to what extent Principal Proceeds may be invested in Collateral Debt Securities during the Ramp-Up Period. In the event that any Class A/B Coverage Test is not satisfied on any Determination Date after the Ramp-Up Completion Date, funds that would otherwise be used to pay interest on the Class C Notes, pay interest on the Class D Notes, make distributions on the Preference Shares and to pay certain other expenses must instead be used to pay principal of the Notes in accordance with the Priority of Payments. In the event that either Class C/D Coverage Test is not satisfied on any Determination Date, funds that would otherwise be used to make distributions on the Preference Shares and to pay certain other expenses must instead be used to pay principal of the Notes in accordance with the Priority of Payments. See "—Priority of Payments—Interest Proceeds." For the purpose of determining any payment to be made on any Distribution Date pursuant to any applicable clause of "Priority of Payments—Interest Proceeds," any Coverage Test referred to in such clause shall be calculated as of the relevant Distribution Date after giving effect to all payments to be made on such Distribution Date prior to such payment in accordance with "Priority of Payments—Interest Proceeds."

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/D Coverage Tests" will consist of the Class C/D Overcollateralization Test and the Class C/D Interest Coverage Test. Each of the Class A/B Overcollateralization Test and the Class C/D Overcollateralization Test is referred to herein individually as an "Overcollateralization Test." For purposes of the Class A/B Coverage Tests and the Class C/D 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.

<u>The Class A/B Overcollateralization Test</u>:

The "Class A/B Overcollateralization Ratio" is, as of any Measurement Date, the number (expressed as a percentage) calculated by <u>dividing</u> (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date <u>by</u> (b) the sum of (i) the Aggregate Outstanding Amount of the Class A-1 Notes <u>plus</u> (ii) the Aggregate Outstanding Amount of the Class A-2 Notes <u>plus</u> (iii) the Aggregate Outstanding Amount of the Class B Notes. For the avoidance of doubt, amounts specified in clause (b)(i) above will not include any Aggregate Undrawn Amount.

The "Class A/B Overcollateralization Test," for so long as any Class A-1 Notes, Class A-2 Notes or Class B Notes remain Outstanding (or the Commitment Period Termination Date has not occurred), will be satisfied on any Measurement Date occurring on or after the Ramp-Up Completion Date if the

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Class A/B Overcollateralization Ratio on such Measurement Date is equal to or greater than 101.69%. It is expected that, on the Ramp-Up Completion Date, the Class A/B Overcollateralization Ratio will be approximately 103.09%.

The Class C/D Overcollateralization Test:

The "Class C/D 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 sum of (i) the Aggregate Outstanding Amount of the Class A-1 Notes plus (ii) the Aggregate Outstanding Amount of the Class A-2 Notes plus (iii) the Aggregate Outstanding Amount of the Class B Notes plus (iv) the Aggregate Outstanding Amount of the Class C Notes plus (v) the Aggregate Outstanding Amount of the Class D Notes. For the avoidance of doubt, amounts specified in clause (b)(i) above will not include any Aggregate Undrawn Amount.

The "Class C/D Overcollateralization Test" will be satisfied on any Measurement Date occurring on or after the Ramp-Up Completion Date if the Class C/D Overcollateralization Ratio on such Measurement Date is equal to or greater than 100.26%. It is expected that, on the Ramp-Up Completion Date, the Class C/D Overcollateralization Ratio will be approximately 100.86%.

The Interest Coverage Tests:

The Interest Coverage Ratio with respect to the Class A-1 Notes, the Class A-2 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 and the Class D Notes (the " and, together with the Class A/B Interest Coverage Ratio, each an "Interest Coverage Ratio"), as of any Measurement Date occurring on or after the Ramp-Up Completion Date, will be calculated by dividing:

(a) the sum (without duplication) of (i) the scheduled distributions of interest due (in each case regardless of whether the applicable due date has yet occurred) (x) in the Due Period in which such Measurement Date occurs on the Pledged Collateral Debt Securities and (y) prior to the Distribution Date relating to such Due Period on any investments held in each Account (except (i) each Synthetic Security Issuer Account, (ii) each Hedge Counterparty Collateral Account and (iii) interest on investments in a Synthetic Security Counterparty Account which is payable to the Synthetic Security Counterparty), in each case, whether such investments were purchased with Interest Proceeds or Principal Proceeds (including any scheduled payments of principal due prior to the Distribution Date relating to such Due Period on Eligible Investments purchased with Interest Collections during such Due Period) plus (ii) any fees actually received by the Issuer during such Due Period that constitute Interest Proceeds plus (iii) the amount paid during the Due Period (but after the prior Distribution Date), or scheduled to be paid on the Distribution Date relating to such Due Period, to the Issuer by a Synthetic Security Counterparty under a Synthetic Security or by a Hedge Counterparty under a Hedge Agreement plus (iv) the amount, if any, in the Interest Reserve Account and the amount, if any, which will be transferred from the Semi-Annual Interest Reserve Account and the Expense Account to the Payment Account on the Business Day prior to the Distribution Date relating to such Due Period minus (v) the amount, if any, scheduled to be paid to the payment of taxes and filing and registration fees owed by the Co-Issuers on the Distribution Date relating to such Due Period minus (vi) the amount, if any, scheduled to be applied on the Distribution Date relating to such Due Period (A) to the payment to the Trustee, the Collateral Administrator, the Preference Share Paying Agent, the Note Registrar, the Collateral Manager and the Administrator of accrued and unpaid Administrative Expenses and the Trustee Fee and (B) to the payment of other accrued and unpaid Administrative Expenses of the Co-Issuers, in each case, owing to them under clause (2) under the Interest Waterfall to the extent all such payments pursuant to subclauses (A) and (B) of this clause (vi) do not exceed U.S.$100,000 (plus the Trustee Fee) minus (vii) the amount, if any, scheduled to be paid to the

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Collateral Manager of accrued and unpaid Senior Management Fee for such Distribution Date minus (viii) the portion of the scheduled distributions in clause (i) which is required to be deposited into the Semi-Annual Interest Reserve Account minus (ix) any amounts payable by the Issuer to any Hedge Counterparty under each Hedge Agreement on such Distribution Date; by

(b) an amount equal to the sum of (i) in the case of the Class A/B Interest Coverage Ratio, the Interest Distribution Amount for the Class A-1 Notes, the Class A-2 Notes and the Class B Notes and the Commitment Fee payable on the Distribution Date immediately following such Measurement Date relating to such Due Period or (ii) in the case of the Class C/D Interest Coverage Ratio, the Interest Distribution Amount for the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes and the Commitment Fee payable on the Distribution Date immediately following such Measurement Date relating to such Due Period.

In the event that the calculation of any Interest Coverage Ratio produces a negative number, such Interest Coverage Ratio shall be deemed to be equal to zero.

For purposes of calculating any Interest Coverage Ratio, (i) the expected interest income on Floating Rate Securities, under any Hedge Agreements and Eligible Investments, 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) payments made to the Hedge Counterparty pursuant to a Hedge Agreement will not constitute scheduled interest on any Class of Notes and (iv) it will be assumed that no principal payments are made on the Notes during the applicable periods, that no Borrowings are made on the Class A-1 Notes during the applicable period and that the Designated Maturity of any outstanding Borrowing will remain constant.

For the purpose of determining compliance with any Interest Coverage Test, there shall be excluded all payments in respect of Deferred Interest PIK Bonds, Defaulted Securities and Equity Securities and all other scheduled payments (whether of principal, interest, fees or other amounts), as to which the Trustee has actual knowledge will not be made in cash or will not be received when due.

The "Class A/B Interest Coverage Test" means, for so long as any Class A-1 Notes, Class A-2 Notes or Class B Notes remain outstanding (or the Commitment Termination Date has not occurred), a test satisfied on any Measurement Date occurring on or after the Ramp-Up Completion Date if the Class A/B Interest Coverage Ratio as of such Measurement Date is equal to or greater than 102%.

The "Class C/D Interest Coverage Test" means, for so long as any Notes remain outstanding, a test satisfied on any Measurement Date occurring on or after the Ramp-Up Completion Date if the Class C/D Interest Coverage Ratio as of such Measurement Date is equal to or greater than 100%.

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 it is not a

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U.S. Person and that, 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 Note. 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 offered in the United States in reliance upon an exemption from the registration requirements of the Securities Act, 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 in this Offering Circular 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 an interest in a Regulation S Global Note will be entitled to receive a Definitive Note unless (1) for a person other than a distributor (as defined in Regulation S), such person provides certification (among other things) that the Definitive Note is beneficially owned by a person that is not a U.S. Person (as defined in Regulation S) or (2) for a person that is a U.S. Person, such person provides certification (among other things) that any interest in such Definitive Note was purchased in a transaction that did not require registration under the Securities Act. The Notes are not issuable in bearer form.

(v) Pursuant to the Indenture, Wells Fargo Bank, National Association will be 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 Notes and the registration of transfers of Notes in the register maintained by it (the "Note Register"). Wells Fargo Bank, National Association will be 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.

(vii) After issuance, 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.

(viii) After issuance, (i) 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 Amount and Class D 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 D Deferred Interest Amount and (ii) Class A-1 Notes may fail to be in amount which is an integral multiple of U.S.$1,000 if the aggregate principal amount advanced by the Class A-1 Noteholders is less than the minimum denomination.

Global Notes

(i) So long as the depositary for a Global Note, or its nominee, is the registered holder of such Global Note, such depositary or such nominee, as the case may be, will be considered the absolute

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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 depositary (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 depositary 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 that are participants in such systems. Investors may also hold such interests other than through Euroclear or Clearstream, Luxembourg. 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 depositaries, which in turn will hold such interests in such Regulation S Note in customers' securities accounts in the depositaries' 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 that are participants in such system.

(iii) Payments of the principal of, and interest on, an individual Global Note registered in the name of a depositary or its nominee will be made to the depositary 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 or 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 depositary for any Global Note or its nominee, upon receipt of any payment of principal of or interest or Commitment Fee 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 depositary 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 depositary for such Note, (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 or (c) the Trustee so determines in the circumstances described in the Class A-1 Note Purchase Agreement. 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

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(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 Notes

(i) Transfers by a holder of a beneficial interest in a Regulation S Global Note to a transferee who takes delivery of such interest in the form of a beneficial interest in 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 the 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 or another exemption from the registration requirements of the Securities Act and, (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. Exchanges or transfers by a holder of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a beneficial interest in a Restricted Global Note will be made no later than 60 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.

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 (1) such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected through Euroclear or Clearstream, Luxembourg in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures and (2) any transfer not effected in an offshore transaction in accordance with Rule 904 of Regulation S may be made only upon provision to the Note Registrar of written certification from the transferee and transferor in the form provided for in the Indenture.

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 and (B) is not a Qualified Institutional Buyer (unless such beneficial owner is an Accredited Investor that purchased such Restricted Note or interest therein directly from the Co-Issuers or the Initial Purchaser) 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 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 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 an investment bank selected by the Trustee and approved by the Issuer 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 or that may decline speedily in value) to a person that certifies to the Trustee and the Co-Issuers, in connection with such transfer, that such person is both a Qualified Institutional Buyer and a Qualified

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Purchaser, and (ii) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner and such Note shall be deemed not to be outstanding for the purpose of any vote or consent of the Noteholders.

(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 in accordance with the Applicable Procedures and upon receipt by the Note Registrar of written certification from the transferor in the form provided in the Indenture to the effect that such transfer is being made in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S. Exchanges or transfers by a holder of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a beneficial interest in a Regulation S Global Note will be made no later than 60 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.

An owner of a beneficial interest in a Restricted Global Note may transfer such interest to a transferee who takes delivery of 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 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) 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

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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 depositary; 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 depositary 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 depositaries of Euroclear or Clearstream, Luxembourg.

(ix) 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.

(x) 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 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.

(xi) 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").

(xii) 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.

(xiii) The Issuer may impose additional transfer restrictions to comply with the USA PATRIOT Act, 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.

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No Gross-Up

All payments made by the Issuer 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 the Issuer is so required to deduct or withhold, then the Issuer 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 accrued interest or (solely with respect to the Class A-1 Notes) Commitment Fee (a) on any Class A-1 Note or Class A-2 Note when the same becomes due and payable, (b) on any Class B Note when the same becomes due and payable, (c) if there are no Class A-1 Notes, Class A-2 Notes or Class B Notes outstanding (and the Commitment Period Termination Date has occurred), on any Class C Note when the same becomes due and payable or (d) if there are no Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes outstanding (and the Commitment Period Termination Date has occurred), on any Class D 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 default in payment resulting solely from an administrative error or omission by the Trustee, the Administrator, a Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, five Business 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 (and, in the case of a payment default resulting solely from an administrative error or omission by the Trustee, the Administrator, Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, such default continues for a period of five Business 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 three Business Days (or, in the case of a failure resulting solely from an administrative error or omission by the Trustee, the Administrator, a Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, five Business 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 (it being understood that a failure to satisfy a Collateral Quality Test, a Coverage Test, the Class A Sequential Pay Test or the Eligibility Criteria is not a default or breach) 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 (which breach, violation, default or incorrect representation

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or warranty is reasonably expected to have a material and adverse effect on the interest of any of the Noteholders) and the continuation of such default, breach or incorrectness for a period of 45 consecutive days (or, if such default, breach or incorrectness has an adverse effect on the validity, perfection or priority of the security interest granted under the Indenture, 30 days) after any of the Issuer, the Co-Issuer or the Collateral Manager has actual knowledge thereof or after notice thereof (x) to the Issuer and the Collateral Manager by the Trustee, (y) to the Issuer and the Trustee by the Collateral Manager or (z) to the Issuer, the Collateral Manager and the Trustee by the holders of at least 25% in Aggregate Outstanding Amount of Notes of the Controlling Class or by a Hedge Counterparty, in each case specifying such default or breach and requiring it to be remedied and stating that it is a "notice of default" under the Indenture;

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

(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.

If either of the Co-Issuers obtains knowledge, or has reason to believe, that an Event of Default has occurred and is continuing, such Co-Issuer is obligated to promptly notify the Trustee, the Preference Share Paying Agent, the Noteholders, the Collateral Manager, each Hedge Counterparty and each Rating Agency of such 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 Amount of the Controlling Class) and otherwise holders of a majority in Aggregate Outstanding Amount of the Controlling Class, may (a) declare the principal of and accrued and unpaid interest on and (solely with respect to the Class A-1 Notes) Commitment Fee on all of the Notes to be immediately due and payable and (b) reduce the Aggregate Undrawn Amount of the Class A-1 Notes to zero. If an Event of Default described in clause (vi) above under "Events of Default" occurs, such an acceleration and reduction of Commitments 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 a majority in Aggregate Outstanding Amount of Notes of the Controlling Class. The "Controlling Class" means the Class A-1 Notes or, if there are no Class A-1 Notes outstanding (and the Commitment Period Termination Date has occurred), *then* the Class A-2 Notes or, if there are no Class A-2 Notes outstanding (and the Commitment Period Termination Date has occurred), *then* the Class B Notes or, if there are no Class B Notes outstanding (and the Commitment Period Termination Date has occurred), then the Class C Notes or, if there are no Class C Notes outstanding (and the Commitment Period Termination Date has occurred), *then* the Class D Notes. "Default" means any Event of Default or any occurrence that, with notice or the lapse of time or both, would become an Event of Default.

If an Event of Default occurs and is continuing when any Note is outstanding (or when the Commitment Period Termination Date has not occurred), the Trustee will not terminate any Hedge Agreement (unless the Issuer has entered into a replacement Hedge Agreement for such terminated Hedge Agreement) and 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:

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(A) the Trustee determines that the anticipated net proceeds of a sale or liquidation of such Collateral would be sufficient to discharge in full the amounts then due and unpaid on the Notes for principal, interest (including the Class C Deferred Interest Amount, the Class D Deferred Interest Amount, Defaulted Interest and interest on Defaulted Interest, if any), and Commitment Fee, and to pay certain due and unpaid Administrative Expenses, all amounts due to the Hedge Counterparties (including any termination payment and any accrued interest thereon assuming for this purpose, that each Hedge Agreement has been terminated by reason of an event of default or termination event with respect to the Issuer) and accrued and unpaid Senior Management Fees and accrued and unpaid Deferred Subordinate Management Fees, and the holders of at least $66^2/_3$% in Aggregate Outstanding Amount of the Controlling Class of Notes agree in writing with such determination; 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 each Hedge Counterparty (unless no early termination payment would be owing by the Issuer to such Hedge Counterparty upon the termination thereof by reason of an event of default or termination event under the relevant Hedge Agreement with respect to the Issuer), subject to the provisions of the Indenture, direct the sale of the Collateral.

If either of the conditions above to the liquidation of the Collateral is satisfied, the Trustee will liquidate the Collateral and terminate each Hedge Agreement and, on the second Business Day (the "Accelerated Maturity Date") following the Business Day (which shall be the Determination Date for such Accelerated Maturity Date) on which the Trustee notifies the Issuer, the Collateral Manager and each Rating Agency that such liquidation is completed, apply the proceeds of such liquidation in accordance with the Priority of Payments. The Accelerated Maturity Date will be treated as a Distribution Date, and distributions on such date will be made in accordance with the Priority of Payments. Notwithstanding the foregoing, in no event shall any application of the proceeds of any sale or liquidation of the Collateral following an Event of Default occur prior to the date on which amounts (if any) payable by the Issuer to the Hedge Counterparty due to an "Early Termination Event" (as defined in the Hedge Agreement) become due and payable.

The holders of a majority in Aggregate Outstanding 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 will be 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 second 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 security or indemnity satisfactory to it.

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The holders of a majority in Aggregate Outstanding Amount of Notes of the Controlling Class 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 (including rescinding the acceleration of the Notes), except a default in the payment of the principal of any Note or in the payment of interest (including any Defaulted Interest or interest on Defaulted Interest) on the Notes, 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 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 indemnity satisfactory to it, (iii) the Trustee has for 30 days failed to institute any such proceeding and (iv) 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 Amount of the Notes of the Controlling Class.

If the Trustee shall receive conflicting or inconsistent requests from two or more groups of holders of the Notes of the Controlling Class, each representing less than a majority of the Controlling Class, the Trustee shall follow the instructions of the group representing the higher percentage of interest in 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 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 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, shall be disregarded and deemed not to be outstanding. The Collateral Manager and its Affiliates will be entitled to vote Notes owned or controlled by them, or by accounts managed by them, with respect to all other matters.

Notices

Notices to the Noteholders will be given by first-class mail, postage prepaid, to the registered holders of the Notes at their address appearing in the Note Register. If and for so long as any Class of Notes is listed on the Irish Stock Exchange and so long as the rules of such stock exchange so require, notices to the holders of such Notes will also be published in the Irish Stock Exchange's Daily Official List. In addition, for so long as the Preference Shares are listed on the CISX, and so long as the rules of such exchange so require, notices to the holders of the Preference Shares shall also be given by delivery to the CISX.

Modification of the Indenture

With the consent of (x) the holders of not less than a majority in Aggregate Outstanding Amount of the outstanding Notes of each Class materially and adversely affected thereby and a Majority-in-Interest of Preference Shareholders (if materially and adversely affected thereby) and (y) each Hedge

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Counterparty (if such consent is required pursuant to the applicable Hedge Agreement), the Trustee and Co-Issuers may enter into one or more supplemental indentures to add provisions to, or change in any manner or eliminate any provisions of, the Indenture or modify in any manner the rights of the holders of the Notes of such Class, the Preference Shares or the Hedge Counterparties, as the case may be, under the Indenture. Unless notified by holders of a majority in Aggregate Outstanding Amount of any Class of Notes or by a Majority-in-Interest of Preference Shareholders that such Class of Notes or the Preference Shares, as the case may be, will be materially and adversely affected by such change or by a Hedge Counterparty that its consent is required pursuant to the applicable Hedge Agreement, the Trustee is entitled to receive and conclusively rely upon an officer's certificate of the Issuer (or of the Collateral Manager on behalf of the Issuer) or an opinion of counsel, provided by and at the expense of the Issuer, stating whether or not any Class of Notes or the Preference Shares would be materially and adversely affected by such change and whether or not a Hedge Counterparty's consent is required under the related Hedge Agreement. Such determination shall be conclusive and binding on all present and future holders of the Notes and the Preference Shareholders. As long as any Class of the Notes is listed on the Irish Stock Exchange, the Issuer will notify the Company Announcements Office of the Irish Stock Exchange following any modification to the Indenture that affects any Class of the Notes that is listed on the Irish Stock Exchange.

Notwithstanding the foregoing, the Trustee may not enter into any such supplemental indenture (other than to conform the Indenture to the Offering Circular) without the consent of each holder of each outstanding Note of each Class, and each Preference Shareholder adversely affected thereby (which consent shall be evidenced by an officer's certificate of the Issuer certifying that such consent has been obtained, on which the Trustee is entitled to conclusively rely) and each Hedge Counterparty (if its consent is required pursuant to the applicable Hedge Agreement) if such supplemental indenture (i) changes the Stated Maturity of the principal of or the due date of any installment of interest or (solely with respect to the Class A-1 Notes) Commitment Fee on any Note, reduces the principal amount thereof or the rate of interest or (solely with respect to the Class A-1 Notes) Commitment Fee thereon, or the redemption price with respect thereto, changes the earliest date on which the Issuer may redeem any Note, changes the Priority of Payments so as to affect application of proceeds of any Collateral to the payment of principal of or interest or (solely with respect to the Class A-1 Notes) Commitment Fee on the Notes or distributions on the Preference Shares, changes any place where, or the coin or currency in which, any Note or the principal thereof or interest or (solely with respect to the Class A-1 Notes) Commitment Fee 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) or changes the date on which any distribution in respect of the Preference Shares is payable, (ii) reduces the percentage in Aggregate Outstanding Amount of holders of Notes of each Class or the percentage of holders of Preference Shares (as applicable) 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 or 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, (iii) materially impairs or materially 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 other than the security interest granted to the Synthetic Security Counterparty over the Synthetic Security Counterparty Account or terminates such lien on any property at any time subject thereto (other than in connection with the sale or exchange thereof in accordance with, or as otherwise permitted by, the Indenture) or deprives the holder of any Note of the security afforded by the lien created by the Indenture except, in each of the foregoing cases, as otherwise permitted by the Indenture, (v) modifies any of the provisions of the Indenture with respect to supplemental indentures requiring the consent of Noteholders except to increase the percentage of the Aggregate Outstanding Amount of holders of Notes of each Class or the percentage of holders of Preference Shares (as applicable) whose

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consent is required for any 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, (vi) modifies the definition of the term "Outstanding," the definition of the term "Event of Default" or the subordination or priority of payments provisions of the Indenture, (vii) increases the permitted minimum denominations of any Class of Notes, (viii) modifies any of the provisions of the Indenture in such a manner as to affect directly 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 or to adversely affect the rights of the Preference Shareholders to the benefit of any provisions for the redemption of the Preference Shares contained therein, or (ix) amends the "non-petition" or "limited recourse" provisions of the Indenture or the Notes. The Trustee may not enter into any supplemental indenture unless the Rating Condition shall have been satisfied with respect to such supplemental indenture or the consent of each adversely affected holder of Notes has been obtained with respect thereto.

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 any Hedge Counterparty (except to the extent such consent is required under the applicable Hedge Agreement), in order to (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 the Trustee for the benefit of the Secured Parties, (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 in accordance with the USA PATRIOT Act, the Proceeds of Criminal Conduct Law (2004 Revision) (enacted in the Cayman Islands), The Money Laundering Regulations (2003 Revision) (enacted in the Cayman Islands) and any other similar applicable laws or regulations or to enable the Co-Issuers to rely upon any less restrictive exemption from registration under the Securities Act, the Investment Company Act or other applicable law or to remove restrictions on resale and transfer to the extent not required thereunder, (vii) correct any inconsistency, defect or ambiguity in the Indenture or correct, modify or supplement any provision which is inconsistent with any rating agency methodology, (viii) obtain ratings on one or more Classes of the Notes from any rating agency, (ix) accommodate the issuance of any Class of Notes or Preference Shares to be held through the facilities of DTC, Euroclear or Clearstream, Luxembourg or otherwise or the listing or the delisting of the Notes or the Preference Shares on any exchange or the issuance of additional Preference Shares, (x) 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, (xi) 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 the Co-Issuer being required to register as an investment company under the Investment Company Act or avoid the application of the German Investment Tax Act to the Issuer or to any of the Offered Securities, (xii) accommodate the issuance of any Class of Notes as Definitive Notes, (xiii) to correct any non-material error in any provision of the Indenture upon receipt by the Trustee of written direction from the Issuer describing in reasonable detail such error and the modification necessary to correct such error, (xiv) conform the Indenture to this Offering Circular, (xv) make any change required in order to permit or maintain a listing on any exchange, (xvi) correct any manifest error in the Indenture, (xvii) amend or otherwise modify (a) if the

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Rating Condition with respect to Moody's is satisfied, (1) the matrix attached as Part I of Schedule A hereto, (2) the Moody's Minimum Weighted Average Recovery Rate Test, the Moody's Maximum Rating Distribution Test or the Diversity Test or (3) any reference in the Indenture to "Moody's Rating" or a rating assigned by Moody's, (b) if the Rating Condition with respect to Standard & Poor's is satisfied, the matrix attached as Part II of Schedule A hereto or the Standard & Poor's Minimum Recovery Rate Test or any reference in the Indenture to "Standard & Poor's Rating" or a rating assigned by Standard & Poor's, or (c) if the Rating Condition with respect to Fitch is satisfied, the matrix attached as Part III of Schedule A hereto, the Fitch Weighted Average Rating Factor Test or any reference in the Indenture to "Fitch Rating" or a rating issued by Fitch; or (xviii) accommodate, modify or amend existing and/or replacement hedge agreements or enter into one or more additional hedge agreements or accommodate, modify, or amend such additional hedge agreements, or replacements therefor.

In each case (other than pursuant to clause (xiv) or (xvi)), the Trustee may not enter into a supplemental indenture, unless such supplemental indenture would not materially and adversely affect any Class of Notes or the Preference Shareholders. The Trustee may not enter into any such supplemental indenture if, with respect to such supplemental indenture, the Rating Condition with respect to Standard & Poor's would not be satisfied; provided that the Trustee may, with the consent of the holders of 100% of the Aggregate Outstanding Amount of Notes of each affected Class, enter into any such supplemental indenture notwithstanding that the Rating Condition with respect to Standard & Poor's would not be satisfied with respect to such supplemental indenture; provided further that notice of such consent is provided to the Rating Agencies and the Collateral Manager.

The Trustee may rely upon an officer's certificate of the Issuer (or the Collateral Manager on its behalf) or an opinion of counsel, provided by and at the expense of the Issuer, as to whether the interests of any Class of Notes or the Preference Shareholders would be materially and adversely affected by any such supplemental indenture and whether or not the consent of any Hedge Counterparty is required. The Issuer shall not enter into any such supplemental indenture without the consent of a Hedge Counterparty if its consent is required under its Hedge Agreement. In addition, the Issuer 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.

Notwithstanding anything to the contrary in this section, if any of the Rating Agencies changes the method of calculating any of its respective Collateral Quality Tests (a "Collateral Quality Test Modification") or any of the respective Coverage Tests (a "Coverage Test Modification"), the Issuer may, at the direction of the Collateral Manager, incorporate corresponding changes into the Indenture without the consent of the holders of the Notes and Preference Shares (i) (A) in the case of a Collateral Quality Test Modification, if the Rating Condition is satisfied with respect to the Rating Agency that made such change or (B) in the case of a Coverage Test Modification, if the Rating Condition is satisfied with respect to each Rating Agency then rating the Notes, and (ii) if notice of such change is delivered by the Collateral Manager to the Trustee and to the holders of the Notes and Preference Shares (which notice may be included in the next regular report to Noteholders). Any such modification shall be effected without execution of a supplemental indenture, subject to the consent of the Initial Hedge Counterparty, and of the other Hedge Counterparties to the extent each such consent is required pursuant to the applicable Hedge Agreement.

Promptly after the execution by the Co-Issuers and the Trustee of any supplemental indenture, the Trustee, at the expense of the Co-Issuers , will mail to the holders of the Notes, the Collateral Manager, the Preference Share Paying Agent, the Paying Agent in Ireland (if and for so long as any Class

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of Notes is listed thereon) and each Rating Agency (so long as any Class of Notes is Outstanding) a copy thereof.

Modification of Certain Other Documents

Prior to entering into any amendment to the Account Control Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Class A-1 Note Purchase Agreement, the Administration Agreement or any 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 Collateral Manager, each 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 "The Collateral Management Agreement." Certain Synthetic Security Counterparties, each Hedge Counterparty, the Collateral Manager and each Preference Shareholder 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 Controlling Class of Notes) agree not to cause or join in 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 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, 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 Collateral Administration Agreement, the Administration Agreement, each Hedge Agreement and the Collateral Management Agreement.

Trustee

Wells Fargo Bank, National Association will be the Trustee under the Indenture. The Co-Issuers 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

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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. In the Indenture, the Trustee will agree not to cause or join in 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 (*plus* one day) then in effect, after the payment in full of all of the Notes; *provided, however* it is entitled to file proofs of claim in connection with such proceeding. Pursuant to the Indenture, the Trustee may resign at any time by providing 30 days' prior written notice and the Trustee may be removed at any time by holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of the Notes or at any time on 10 days' prior written notice when an Event of Default shall have occurred and be continuing by holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of Notes of the Controlling Class. However, no resignation or removal of the Trustee will become effective until the acceptance of appointment by a successor Trustee pursuant to the terms of the Indenture. If the Trustee shall resign or be removed, the Trustee shall also resign as Paying Agent, Calculation Agent, Registrar and any other capacity in which the Trustee is then acting pursuant to the Indenture.

The Collateral Administration Agreement

Pursuant to the terms of the Collateral Administration Agreement (the "Collateral Administration Agreement"), dated as of the Closing Date, among the Issuer, the Collateral Manager and Wells Fargo Bank, National Association (in such capacity, the "Collateral Administrator"), relating to certain functions performed by the Collateral Administrator for the Issuer with respect to the Indenture and the Collateral Debt Securities, the Issuer will retain the Collateral Administrator, to assist in the preparation of 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 Wells Fargo Bank, National Association in its capacity as Trustee, will be treated as an expense of the Issuer under the Indenture and will be subject to the Priority of Payments.

Tax Characterization

The Issuer intends to treat the Notes as debt instruments of the Issuer for U.S. Federal, state and local income tax purposes, unless and until an applicable taxing authority requires otherwise. The Indenture will provide that each holder, by accepting a Note, agrees to such treatment and not to take any action inconsistent with such treatment; *provided, however*, that the holders of Class C Notes or Class D Notes will not be required to treat the Class C Notes or Class D Notes as debt with respect to certain reporting requirements under Sections 6038, 6038B and 6046 of the Code.

Governing Law

The Notes, the Indenture, the Collateral Management Agreement, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement, the Class A-1 Note Purchase Agreement, the Hedge Agreement, the Investor Application Forms and the Purchase Agreement will be governed by, and construed in accordance with, the laws 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 laws of the Cayman Islands.

DESCRIPTION OF THE PREFERENCE SHARES

The Preference Shares will be issued pursuant to the Preference Share Documents and will be subscribed to in accordance with the terms of the Investor Application Forms for Preference Shares. The following summary describes certain provisions of the Preference Shares, the Issuer Charter, the

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Preference Share Paying Agency Agreement and the Investor Application Forms. 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 Investor Application Forms for Preference Shares. After the Closing Date, copies of the Issuer Charter, the Preference Share Paying Agency Agreement and the form of Investor Application Form for Preference Shares may be obtained by prospective investors upon request in writing to the Preference Share Paying Agent at 9062 Old Annapolis Road, Columbia, Maryland 21045, Attention: CDO Trust Services – Kleros Preferred Funding, Ltd.

Status

The Issuer is authorized to issue 15,500 Preference Shares, par value U.S.$0.01 per share, at an issue price of U.S.$1,000 per share, having a liquidation preference of U.S.$1,000 per share. The Preference Shares are participating shares in the capital of the Issuer and will rank *pari passu* with respect to distributions.

Distributions

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, 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 such 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 Cayman Islands law and the Preference Share Documents governing the declaration and payment of dividends, after the Notes and certain other amounts have been paid in full, Interest Proceeds and Principal Proceeds 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 less any subscription or placement fees paid); provided that the Issuer will be solvent immediately following the date of such payment.

Distributions on any Preference Share will be made to the person in whose name such Preference Share is registered fifteen 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 or at the New York office designated by the Preference Share Paying Agent.

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

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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 the Determination Date related to any Distribution Date, Interest Proceeds (and then Principal Proceeds, if needed) 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 in accordance with the Priority of Payments. In addition, if a Rating Confirmation Failure occurs, funds that would otherwise be paid to the Preference Share Paying Agent for distribution to the 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 Uninvested Proceeds for such purpose) to obtain a Rating Confirmation from each Rating Agency. See "Description of the Notes—Priority of Payments."

Optional 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 given not less than 15 Business Days prior to such Distribution Date at a redemption price per share equal to (x) the proceeds from the liquidation of the assets of the Issuer minus the costs and expenses of such liquidation minus the amount required to establish adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer minus a profit fee of U.S.$1.00 per ordinary share divided by (y) the number of Preference Shares.

The Issuer Charter

The following summary describes certain provisions of the Issuer Charter, the Indenture, the Preference Share Paying Agency Agreement and the Collateral Management Agreement. 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, the Indenture, the Preference Share Paying Agency Agreement and the Collateral Management Agreement.

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. For so long as the Preference Shares are listed on the Channel Islands Stock Exchange, and so long as the rules of such Exchange so require, notices to the holders of the Preference Shares shall also be given by delivery to the Channel Islands Stock Exchange.

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 Investor Application Forms for Preference Shares (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 Indenture, the Preference Share Documents, the Collateral Management Agreement and Cayman Islands law afford Preference Shareholders of the Issuer the right to vote on matters in addition to those mentioned below.

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

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not in part) at the direction of a Majority-in-Interest of Preference Shareholders, as described above under "—Optional Redemption of the Preference Shares."

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

The Indenture: The Issuer is not permitted to enter into certain supplemental indentures without the consent of a specified percentage of the Preference Shareholders under the circumstances described under "Description of the Notes—Modification of the Indenture."

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, (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 the Preference Shareholders or (iii) increase the minimum number of Preference Shares required to be held at any time by a single Preference Shareholder.

The Hedge Agreements: Subject to satisfaction of the Rating Condition with respect to Standard & Poor's (and notice to Moody's and Fitch) with respect to such reduction and payment of any termination payment due to the Hedge Counterparty, the Issuer may, with the consent of the Hedge Counterparty on any Distribution Date, reduce the notional amount of any Hedge Agreement upon written notice to the Preference Shareholders; provided that a Majority-in-Interest of Preference Shareholders does not object to such reduction within five Business Days after receipt of such notice. 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.

Dissolution; Liquidating Distributions

The Issuer will be wound up on the earliest to occur of (i) at any time on or after the date that is one year and two days after the Stated Maturity of the Notes, upon the Preference Shareholders' determination to dissolve the Issuer, (ii) at any time after the sale or other disposition of all of the Issuer's assets, upon the Preference Shareholders' determination to dissolve the Issuer, (iii) at any time after the Notes are paid in full, upon the Preference Shareholders' 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 (2004 Revision) 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 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."

On the dissolution of the Issuer, its affairs will be wound up and its assets sold or distributed. Subject to the terms of the Indenture, the Preference Share Documents and Cayman Islands law, the assets of the Issuer shall be applied in the following order of priority:

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(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;

(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 the aggregate liquidation preferences of the Preference Shares;

(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 Preference Share Documents, the Indenture and Cayman Islands Law, 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 an Investor Application Form (and each transferee of Preference Shares will be required to covenant in a transfer certificate) that it will not cause or join in 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 will be governed by, and construed in accordance with, the laws 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 laws of the Cayman Islands.

Certain Definitions

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

"IRR" means, with respect to each Distribution Date, the rate of return on the Preference Shares that would result in a net present value of zero, assuming (a) the original aggregate liquidation preference of the Preference Shares is an initial negative cash flow on the Closing Date and all distributions, if any, to the Preference Share Paying Agent (for distribution to the Preference Shareholders) on such Distribution Date and each preceding Distribution Date are positive cash flows, (b) the initial date for the calculation is the Closing Date, (c) the number of days to each subsequent Distribution Date from the

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Closing Date is calculated on the basis of a 360-day year consisting of twelve 30-day months and (d) the calculation is made on an annual compounding basis.

"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.

"Preference Share Redemption Date Amount" means the amount required (after taking into account any dividends or other distributions made or to be made to the holders of the Preference Shares on the applicable Distribution Date and all prior Distribution Dates in accordance with the Priority of Payments) to ensure that, after distribution of such amount to the Preference Share Paying Agent for distribution to the Preference Shareholders, the IRR on the Preference Shares is not less than (i) 5% on the initial aggregate liquidation preference of the Preference Shares for the period from the Closing Date to such Distribution Date, with respect to a Distribution Date on or after the Distribution Date in July 2013 and on or prior to the Distribution Date in July 2015 and (ii) 2% on the initial aggregate liquidation preference of the Preference Shares for the period from the Closing Date to such Distribution Date, with respect to a Distribution Date after the Distribution Date in July 2015. For the avoidance of doubt, the calculation of the IRR will take into account all of the distributions made on the Preference Shares from the Closing Date to (and including) the Redemption Date, regardless of when a Preference Shareholder first purchased its Preference Shares.

"Reg Y Institution" means any Preference Shareholder that is, or is controlled by a person that is, subject to the provisions of Regulation Y of the Board of Governors of the Federal Reserve System of the United States (12 C.F.R. Part 225) or any successor to such regulation, but excludes, in any event, (a) any "qualifying foreign banking organization" within the meaning of Regulation K of the Board of Governors of the Federal Reserve System (12 C.F.R. Section 211.23) that has booked its investment in the Preference Shares outside the United States and (b) any financial holding company or subsidiary of a financial holding company authorized to engage in merchant banking activities pursuant to Section 4(k)(4)(H) of the Bank Holding Company Act of 1956, as amended.

"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 Factor" means at any time, a number obtained by (a) calculating the percentage obtained by <u>multiplying</u> 4.99% by the number of Reg Y Institutions (each, a "Voting Constrained Shareholder") as to which the ratio (expressed as a percentage) of the number of Preference Shares held by such Reg Y Institution at such time <u>divided by</u> the aggregate number of Preference Shares held by all Preference Shareholders at such time exceeds 4.99% (or would, after giving effect to the calculation of the "Voting Factor" for each Preference Shareholder, exceed 4.99% in the absence of (x) this parenthetical and (y) the provision in the definition of "Voting Percentage" limiting the Voting Percentage of a Reg Y Institution to 4.99%), (b) subtracting the percentage obtained in clause (a) above from 100% and (c) <u>dividing</u> the percentage obtained in clause (b) above by the percentage obtained by <u>dividing</u> (i) the aggregate number of Preference Shares held by all Preference Shareholders other than Voting Constrained Shareholders by (ii) the aggregate number of Preference Shares held by all Preference Shareholders; provided that, for the purposes of this definition and the definitions of "Voting Percentage" and "Voting Preference Shares," any Preference Shares owned by the Issuer, the Co-Issuer or any other obligor upon the Notes or any Affiliate thereof will be disregarded and deemed not to be outstanding.

"Voting Percentage" means in respect of a Preference Shareholder at any time, (a) for any Preference Shareholder which is a Reg Y Institution, the lesser of (i) 4.99% and (ii) a percentage equal to

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the number of Preference Shares held by such Reg Y Institution at such time multiplied by the Voting Factor at such time divided by the aggregate number of Preference Shares held by all Preference Shareholders at such time and (b) for any Preference Shareholder other than a Reg Y Institution, a percentage equal to the number of Preference Shares held by such Preference Shareholder at such time multiplied by the Voting Factor at such time divided by the aggregate number of Preference Shares held by all Preference Shareholders at such time.

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

Form, Registration and Transfer

General

(i) Preference Shares that are sold or transferred outside the United States to persons that are not U.S. Persons ("Regulation S Preference Shares") will be represented by either (i) one or more permanent global preference share certificates (each, a "Regulation S Global Preference Share") or (ii) in the limited circumstances described herein, preference share certificates in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof ("Regulation S Definitive Preference Shares"). By acquisition of a Regulation S Preference Share, any purchaser thereof will be required to represent and warrant in a transfer certificate (in the case of the Regulation S Definitive Preference Shares) or be deemed to represent and warrant (in the case of the Regulation S Global 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 Definitive Preference Share. Preference Shares that are sold or transferred to a U.S. Person or in the United States in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 4(2) thereof will be represented by certificates ("Restricted Definitive Preference Shares"; the Restricted Definitive Preference Shares and Regulation S Definitive Preference Shares are collectively referred to as the "Definitive Preference Shares") in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof. Any purchaser of Preference Shares issued on the Closing Date, with the consent of the Initial Purchaser, in a number less than the minimum trading lot will be required to hold Regulation S Definitive Preference Shares. Interests in a Regulation S Preference Share will be exchangeable or transferable, as the case may be, for a Regulation S Definitive Preference Share if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Regulation S Definitive Preference Share or (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.

(ii) The Preference Shares will be 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 (and, if the transferor retains any Preference Shares, the transferor) would own less than 250 Preference Shares; *provided* that the Issuer may, with the consent of the Initial Purchaser, authorize Preference Shares to be issued to up to five investors in a minimum number of 100 Preference Shares representing an aggregate liquidation preference of U.S.$100,000.

(iii) Wells Fargo Bank, National Association (or any successor thereto) will be appointed as transfer agent with respect to the Preference Shares (the "Preference Share Paying Agent").

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

(v) The Administrator will be appointed as Preference Share Registrar (the "Preference Share Registrar"). The Preference Share Registrar 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 Issuer and the office of the Preference Share Paying Agent.

(vi) The Issuer is authorized to issue 15,500 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share.

(vii) Application will be made to the CISX for the listing and permission to deal in the Preference Shares.

Transfer and Exchange

(i) Transfers by a holder of a beneficial interest in a Regulation S Global Preference Share or a Regulation S Definitive Preference Share to a transferee who takes delivery of a Restricted Definitive Preference Share will be made (a) in the case of a transfer by a holder of a beneficial interest in a Regulation S Global Preference Share, only in accordance with the Applicable Procedures and (b) in either case, upon receipt by the Preference Share Registrar of written certifications from each of the transferor and the transferee 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 (a) to a transferee that (A) is both (1) 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 of the Securities Act provided by Rule 144A and (2) a Qualified Purchaser, (B) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) and (C) is not a Benefit Plan Investor or a Controlling Person; and (b) in accordance with all other applicable securities laws of any relevant jurisdiction.

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; *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. 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. Each Original Purchaser (and any transferee) acquiring an interest in a Regulation S Global Preference Share will be required to execute and deliver to the Issuer and the Preference Share Paying Agent a letter substantially in the form attached as Exhibit A hereto which includes a representation to the effect that it 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 a letter as a condition to any subsequent transfer).

Transfers or exchanges by a holder of a Definitive Preference Share to a transferee who takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Preference Share will be made only (a) in accordance with the Applicable Procedures and (b) upon receipt by the Preference Share Registrar of written certification from each of the transferor and transferee in the form provided in the Preference Share Paying Agency Agreement to the effect that, among other things, such transfer is being made to a person that is not a U.S. Person, that is not a Benefit Plan Investor or a Controlling

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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.

Definitive Preference Shares may be exchanged or transferred in whole or in part in numbers not less that the applicable minimum trading lot by surrendering such Definitive Preference Shares at the office of the Preference Share Registrar or the office designated by the Preference Share Transfer Agent with a written instrument of transfer and 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, the transferee (i)(x) is a Qualified Institutional Buyer or (y) is entitled to take delivery of such Restricted Definitive Preference Share pursuant to 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) is a Qualified Purchaser, (c) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) and (d) is not a Benefit Plan Investor or a Controlling Person. With respect to any transfer of a portion of Definitive Preference Shares, the transferor will be entitled to receive new Restricted Definitive Preference Shares or Regulation S Definitive Preference Shares, as the case may be, representing the liquidation amount retained by the transferor after giving effect to such transfer. Definitive Preference Shares issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the Preference Share Transfer Agent.

Definitive Preference Shares issued upon any exchange or registration of transfer of securities shall represent the same interests, and be entitled to the same benefits, as the Definitive Preference Shares surrendered upon exchange or registration of transfer.

(ii) No Reg Y Institution may transfer any Preference Shares held by it to any person other than (a) a person or group of persons under common control that controls the Issuer without reference to any Preference Shares transferred to such person or group by such Reg Y Institution (a "Controlling Party"), (b) a person or persons designated by a Controlling Party, (c) in a widespread public distribution as part of a public offering, (d) in amounts such that, after giving effect thereto, no single transferee and its affiliates will hold more than 2% of the aggregate number of Preference Shares (including all options, warrants and similar rights exercisable or convertible into Preference Shares) or (e) as otherwise permitted by applicable U.S. Federal banking law and regulations. See "Transfer Restrictions." Except for an Original Purchaser of a Restricted Definitive Preference Share, no Preference Shares may be held by or transferred to a Controlling Person.

(iii) After the Closing Date, no Preference Share may be transferred to a Benefit Plan Investor or a Controlling Person and none of the Issuer, the Preference Share Paying Agent or the Preference Share Registrar will recognize any such transfer. See "Transfer Restrictions."

The Preference Share Paying Agency Agreement provides that if the Issuer determines that any beneficial owner of a Preference Share (other than an Original Purchaser of a Restricted Definitive Preference Share) is a Benefit Plan Investor or a Controlling Person, or that an Original Purchaser did not disclose in an Investor Application Form, purchaser letter in the form of Exhibit A or a transfer certificate in the form attached to the Preference Share Paying Agency Agreement delivered to the Issuer at the time of its acquisition of such beneficial interest whether it is a Benefit Plan Investor or a Controlling Person or, subsequent to the purchase of a Preference Share, any beneficial owner is or has become a Benefit Plan Investor or a Controlling Person (including insurance company general accounts with assets constituting plan assets), then the Issuer shall require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest in or to such Preference Shares to a Person that is (1) in the case of Restricted Definitive Preference Shares (A) (x) a Qualified Institutional Buyer or

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(y) entitled to take delivery of such Restricted Definitive Preference Share pursuant to 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) a Qualified Purchaser and (C) not a Benefit Plan Investor or a Controlling Person or (2) in the case of Regulation S Global Preference Shares or Regulation S Definitive Preference Shares, neither (A) a U.S. Person nor (B) a Benefit Plan Investor or a Controlling Person, 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 an investment bank selected by the Preference Share Paying Agent and approved by the Issuer 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 or that may decline speedily in value) 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 (A) in the case of Restricted Definitive Preference Shares (x) (i) a Qualified Institutional Buyer or (ii) entitled to take delivery of such Restricted Definitive Preference Share pursuant to 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 (y) a Qualified Purchaser, (B) in the case of Regulation S Global Preference Shares or Regulation S Definitive Preference Shares, not a U.S. Person and (C) in all cases, not a Benefit Plan Investor or a Controlling Person and (II) pending such transfer, no payments will be made on such Preference Shares from the date notice of the sale requirement is sent to the date on which such Preference Shares are sold and such Preference Shares shall be deemed not to be outstanding for the purposes of any vote, consent or direction of the Preference Shareholders and shall not be taken into account for the purposes of calculating any quorum or majority requirements relating thereto. The reference in the first sentence of this paragraph to a change in a Benefit Plan Investor's status or a Controlling Person's status shall be deemed to include, in the case of a Preference Shareholder that is an insurance company investing through its general account, any increase in the percentage of such general account consisting of plan assets above the percentage specified in the questionnaire submitted with the relevant Investor Application Form, purchaser letter in the form of Exhibit A or a transfer certificate in the form attached to the Preference Share Paying Agency Agreement.

(iv) No service charge will be made for exchange or registration of transfer of any Preference Share but the Preference Share Paying Agent (on behalf of the Preference Share Registrar) 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.

(v) The Preference Share Paying Agent will effect exchanges and transfers of Preference Shares. All Preference Shares issued upon any exchange or registration of transfer are entitled to the same benefits as the Preference Shares surrendered upon exchange or registration of transfer.

(vi) In addition, the Preference Share Registrar will keep in the Preference Share Register records of the ownership, exchange and transfer of the Preference Shares in definitive form. Transfers of beneficial interests in Regulation S Global Preference Shares will be effected in accordance with the Applicable Procedures.

(vii) The Issuer may impose additional transfer restrictions to comply with the USA PATRIOT Act, to the extent it is applicable to the Issuer and any applicable anti-money laundering

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legislation in the Cayman Islands and, in such event, each holder of Preference Shares will be required to comply with such transfer restrictions.

Definitive Regulation S Preference Shares

Interests in a Regulation S Preference Share represented by a Regulation S Global Preference Share will be exchangeable or transferable, as the case may be, for a Regulation S Preference Share that is a Definitive Preference Share if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Preference Share or (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. 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 Definitive Preference Share, the Issuer shall deliver through the Preference Share Paying Agent to the holder and the transferee, as applicable, one or more Definitive Preference Shares in certificated form corresponding to the principal amount of Definitive 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 above.

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 will pay any such withholding taxes to the applicable governmental authority, but will not be obligated to pay any additional amounts in respect of such withholding or deduction.

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USE OF PROCEEDS

The gross proceeds received from the issuance and sale of the Offered Securities will be approximately U.S.$1,007,000,000 (after giving effect to all Borrowings under the Class A-1 Notes through the Ramp-Up Completion Date). The net proceeds from the issuance and sale of the Offered Securities, together with the Up Front Payment, are expected to be approximately U.S.$1,005,200,000, which reflects the payment from such gross proceeds of organizational and structuring fees, a fee payable to the Collateral Manager (for collateral management services performed prior to the Closing Date), the payment made by the Issuer to the Hedge Counterparty on the Closing Date, and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Manager and the Initial Purchaser), the expenses, fees and commissions incurred in connection with the acquisition of the Collateral Debt Securities for inclusion in the Collateral on or prior to the Closing Date, the expenses of offering the Offered Securities (including fees payable to the Initial Purchaser in connection with the offering of the Offered Securities) 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) certain Asset-Backed Securities and (b) Synthetic Securities. 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.$850,000,000. The Issuer expects that, no later than September 26, 2005, it will have purchased Collateral Debt Securities having an Aggregate Principal Balance of approximately U.S.$1,000,000,000. Any such proceeds not invested in Collateral Debt Securities or deposited into the Expense Account or the Interest Reserve 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 during the Ramp-Up Period, as described herein, and, in certain limited circumstances described herein, for the payment of the Notes or for distributions on the Preference Shares. See "Security for the Notes."

RATINGS 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 and "AAA" by each of Fitch and Standard & Poor's, that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by each of Fitch and Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by each of Fitch and Standard & Poor's, that the Class C Notes be rated at least "A3" by Moody's and at least "A-" by each of Fitch and Standard & Poor's and that the Class D Notes be rated at least Baa2 by Moody's and at least "BBB" by each of Fitch and Standard & Poor's. The ratings assigned by Moody's to the Notes address the ultimate cash receipt of all required interest (including, in the case of the Class C Notes and the Class D Notes, interest on all Class C Deferred Interest Amounts and all Class D Deferred Interest Amounts, respectively) and principal payments on each such Class of Notes, in each case as provided in the governing documents, and are based on the expected loss posed to the Noteholders relative to the promise of receiving the present value of such payments. The ratings assigned by Standard & Poor's and Fitch to the Class A-1 Notes, the Class A-2 Notes and the Class B Notes address the timely payment of interest and ultimate payment of principal on each such Class of Notes at its Stated Maturity. The ratings assigned by Standard & Poor's and Fitch to the Class C Notes and the Class D Notes address the ultimate payment of interest (including interest on all Class C Deferred Interest Amounts and interest on all Class D Deferred Interest Amounts) and principal on each such Class of Notes at its Stated Maturity. The Preference Shares will not be rated by any Rating Agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision at any time.

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Following the Ramp-Up Completion Date, the Issuer will request that each Rating Agency confirm to the Issuer that it has not reduced or withdrawn the rating assigned by it on the Closing Date to any Class of Notes (a "Rating Confirmation"). See "Description of the Notes—Mandatory Redemption" and "—Priority of Payments."

If and for so long as any Class of Notes is listed on the Irish Stock Exchange, the Trustee will inform such stock exchange if the ratings assigned to any Class of Notes are qualified, downgraded or withdrawn.

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MATURITY, PREPAYMENT AND YIELD CONSIDERATIONS

The Stated Maturity of the Notes is the Distribution Date in October, 2041. The Notes will mature at their Stated Maturity unless redeemed or repaid prior thereto. However, the average lives of the Notes and the Macaulay duration of the Preference Shares may be less than the number of years until the Stated Maturity of the Notes. 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 July 2013 and (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 3.358%, (i) the average life of the Class A-1 Notes would be approximately 6.1 years from the Closing Date, (ii) the average life of the Class A-2 Notes would be approximately 6.3 years from the Closing Date, (iii) the average life of the Class B Notes would be approximately 6.3 years from the Closing Date, (iv) the average life of the Class C Notes would be approximately 6.3 years from the Closing Date, (v) the average life of the Class D Notes would be approximately 6.3 years from the Closing Date and (vi) the Macaulay duration of the Preference Shares would be approximately 4.3 years. Such average lives of the Notes and the Macaulay duration of the Preference Shares are presented for illustrative purposes only. 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 Macaulay 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 Ramp-Up Period, defaults, recoveries, sales, 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 Macaulay duration set forth above, and consequently the actual average lives of the Notes and the Macaulay 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 Macaulay 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 "Macaulay 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 Macaulay 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 Macaulay 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

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thereon, and, accordingly, may affect the actual average lives of the Notes and the Macaulay 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 Macaulay duration of the Preference Shares.

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THE CO-ISSUERS

General

The Issuer was incorporated as an exempted company with limited liability under a different name and subsequently changed its name to Kleros Preferred Funding, Ltd. by resolution of the sole subscriber dated 3 March 2005 and registered on 4 February 2005 in the Cayman Islands pursuant to the Issuer Charter, has a registered number of WK-144815 and is in good standing under the laws of the Cayman Islands. The registered office of the Issuer is at the offices of Walkers SPV Limited, P.O. Box 908GT, Walker House, Mary Street, George Town, Grand Cayman, Cayman Islands. The Issuer has no prior operating experience and the Issuer will not have any substantial assets other than the Collateral pledged to secure the Notes, the Issuer's obligations under the Collateral Management Agreement, the Hedge Agreements and the Issuer's obligations to the Trustee. 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 on trust for charitable purposes by Walkers SPV Limited in the Cayman Islands (in such capacity, the "Share Trustee") under the terms of a declaration of trust) and (b) 15,500 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$ 1,000 per share.

It is proposed that the Issuer will be liquidated on the date that is one year and two days after the Stated Maturity of the Notes, unless earlier dissolved and terminated in accordance with the terms of the Issuer Charter. See "Description of the Preference Shares—The Issuer Charter—Dissolution; Liquidating Distributions."

The Co-Issuer was organized on March 14, 2005 under the laws of the State of Delaware with the state identification number 3939459 and its registered office is c/o National Corporate Research, Ltd., 615 South DuPont Highway, Dover, Delaware 19901. The independent manager of the Co-Issuer is Donald J. Puglisi and he may be contacted at c/o Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19711. The Co-Issuer has no prior operating experience. It will not have any assets (other than its U.S.$1,000 of limited liability company interests 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 and will have no claim against the Issuer with respect to the Collateral Debt Securities or otherwise.

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's activities will be subject to the overview of the board of directors of the Issuer. The directors of the Issuer are David Egglishaw, Derrie Boggess and John Cullinane, each of whom is a director or officer of the Administrator and each of whose offices are at Walkers SPV Limited, P.O. Box 908GT, Mary Street, George Town, Grand Cayman, Cayman Islands. The Administration

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Agreement may be terminated by either the Issuer or the Administrator upon 30 days' written notice, in which case a replacement Administrator would be appointed.

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

Capitalization and Indebtedness of the Issuer

The capitalization of the Issuer after giving effect to the issuance of the Offered Securities (assuming the Commitments on the Class A-1 Notes have been fully drawn) 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.$ 850,000,000
Class A-2 Notes	U.S.$ 68,500,000
Class B Notes	U.S.$ 51,500,000
Class C Notes	U.S.$ 13,000,000
Class D Notes	U.S.$ 8,500,000
Total Debt	U.S.$ 991,500,000
Ordinary Shares	U.S.$ 1,000
Preference Shares	U.S.$ 15,500,000*
Total Equity	U.S.$ 15,501,000*
Total Capitalization	U.S.$1,007,001,000

* Represents the aggregate liquidation preference of the Preference Shares, which is more than the proceeds to the Issuer from the issuance of the Preference Shares.

As of the Closing Date and after giving effect to the issuance of the Preference Shares, the authorized and issued share capital of the Issuer will be 1,000 ordinary shares, par value U.S.$1.00 per share and 15,500 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share.

The Issuer will not have any material assets other than the Collateral.

The Co-Issuer will be capitalized only to the extent of its U.S.$1,000 undivided limited liability company interest, will have no assets other than the proceeds from the sale of its interests to the Issuer, 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 undivided limited liability company interest to the Issuer, the Co-Issuer will have authorized and issued an undivided limited liability company interest of U.S.$1,000. The Issuer will have a capital account of U.S.$1,000 in the Co-Issuer representing all of the capital of the Co-Issuer.

Business

Article 3 of the Issuer Charter provides that the activities of the Issuer are limited to (i) the issuance of the Notes, the Preference Shares and its ordinary shares, (ii) the acquisition ,disposition of, and investment in, Collateral Debt Securities, Equity Securities (to a limited extent) and Eligible Investments, (iii) the entering into, and the performance of its obligations under the Indenture, the Notes, the Class A-1 Note Purchase Agreement, the Purchase Agreement, the Account Control Agreement, the Preference Share Paying Agency Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Master Forward Sale Agreement and any Hedge Agreement, (iv) the pledge of the Collateral as security for its obligations in respect of (inter alia)

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the Notes, (v) the ownership and management of the Co-Issuer and (vi) 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.

The Issuer has no employees and no subsidiaries other than the Co-Issuer. Section 2 of the Co-Issuer's Limited Liability Company Agreement states that the Co-Issuer will not undertake any business other than the co-issuance of the Notes.

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SECURITY FOR THE NOTES

General

The Collateral securing the Notes will consist of: (a) the Custodial Account, the Collateral Debt Securities and the Equity Securities (if any), (b) the Interest Collection Account, the Uninvested Proceeds Account, the Principal Collection Account, the Payment Account, the Expense Account, the Interest Reserve Account, the Semi-Annual Interest Reserve Account, each Synthetic Security Counterparty Account (subject to the prior rights of the related Synthetic Security Counterparty), each Synthetic Security Issuer Account (subject to the prior rights of the related Synthetic Security Counterparty), the Hedge Counterparty Collateral Account, all funds and other property standing to the credit of each such account, Eligible Investments purchased with funds standing to the credit of each such account and all income from the investment of funds therein, (c) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, each Hedge Agreement and the Class A-1 Note Purchase Agreement, (d) all cash delivered to the Trustee and (e) all proceeds, accessions, profits, income benefits, substitutions and replacements, whether voluntary or involuntary, of and to any of the property of the Issuer described in the preceding clauses (collectively, the "Collateral"); *provided* that the rights of any Synthetic Security Counterparty as a security party will be limited solely to its rights in respect of any Synthetic Security Counterparty Account or Synthetic Security Issuer Account established with respect to the Synthetic Security to which it is a party.

Collateral Debt Securities

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 (together with certain other amounts) of not less than U.S.$850,000,000. Schedule C to this Offering Circular identifies the Collateral Debt Securities which the Issuer, as of the date of this Offering Circular, expects to purchase (or commit to purchase) on the Closing Date. Such list of Collateral Debt Securities is subject to change on or prior to the Closing Date, and the Issuer will purchase additional Collateral Debt Securities after the Closing Date which are not listed on Schedule C.

During the Ramp-Up Period, the Issuer may invest Uninvested Proceeds in Collateral Debt Securities. A "Collateral Debt Security" means (i) any CDO Obligation, (ii) any Other ABS, (iii) any Guaranteed Asset-Backed Security, (iv) any Synthetic Security or (v) any Deliverable Obligation 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, but Collateral Debt Securities will exclude Prohibited Securities.

"ABS CDO Security" 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) primarily on the cash flow from a portfolio of Asset-Backed Securities; provided that ABS CDO Securities shall also include Asset-Backed Securities that entitle the holders thereof to receive payments that depend on the cash flow from a credit swap linked to a notional portfolio of Asset-Backed Securities and from the cash flow from a repurchase agreement, interest rate swap, investment contract, sovereign debt or other highly rated securities purchased with the proceeds of such Asset-Backed Securities.

"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

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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.

"Aircraft Lease 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 consisting of aircraft leases and subleases generally having the following characteristics: (1) such leases and subleases have varying contractual maturities; (2) such leases and 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 the 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 or sublessee or guarantees granted by third parties.

"Bank Trust Preferred CDO Securities" means CDO Obligations that entitle the holders thereof to receive payments that depend primarily (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the securities) on the cash flow from a pool of trust preferred securities issued by a wholly-owned trust subsidiary of a U.S. financial institution which uses the proceeds of such issuance to purchase a portfolio of debt securities issued by its parent.

"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.

"CDO Obligation" means a High-Diversity CDO Security or a Low-Diversity CDO Security. A CDO Obligation includes, without limitation, ABS CDO Securities, High Yield CDO Securities, Investment Grade CDO Securities, Closing Date CDO Obligations, Trust Preferred CDO Securities and Synthetic CDO Securities.

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"CDO of CDO Securities" means a CDO Obligation that entitles the holder thereof to receive payments that depend on a portfolio of underlying obligations of which 40% or more of the aggregate principal balance thereof consist of other CDO Obligations.

"Chassis Leasing Securities" means Asset-Backed Securities (other than Aircraft Lease Securities and Restaurant and Food Services 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 chassis (other than automobiles) to commercial and industrial customers, 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 chassis; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the chassis for their stated residual value, subject to payments at the end of lease term for excess usage.

"Corporate CDO Security" means any CDO Obligation for which over 10% of the aggregate principal balance of the Underlying Portfolio consists of commercial or industrial loans or obligations or corporate debt securities.

"Deliverable Obligation" means a debt obligation that is delivered to the Issuer upon the occurrence of a "credit event" under a Synthetic Security.

"Franchise Securities" means (1) Oil and Gas Securities and (2) Restaurant and Food Services Securities, to the extent that such Oil and Gas Securities or Restaurant and Food Services 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.

"Guaranteed Asset-Backed Security" means a Corporate Guaranteed Security, a Bank Guaranteed Security or an Insurance Company Guaranteed Security.

"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 Yield CDO Securities" means CDO Obligations which entitle the holders thereof to receive payments that depend primarily on the cash flow from a portfolio of corporate bond securities and/or leveraged loans that are obligations of issuers that have a Moody's Rating below "Baa3."

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"Hybrid Securities" means any Collateral Debt Securities (including, without limitation, any Asset-Backed Securities the payments on which depend on the cash flow from adjustable-rate mortgages) that, pursuant to their Underlying Instruments, pass through to the holders thereof all interest proceeds received in respect of the underlying collateral with respect to such Collateral Debt Security, which underlying collateral may consist of assets that bear interest at a fixed rate for a limited period of time (generally greater than 12 months at the time of issuance of the security on a weighted average basis), after which such assets bear interest based upon a floating rate index for Dollar-denominated obligations commonly used as a reference rate in the United States or the United Kingdom.

"Hybrid Trust Preferred Securities" means CDO Obligations that entitle the holders thereof to receive payments that depend primarily (except for rights or other assets designed to assure the servicing and timely distribution of proceeds to the holders of the securities) on the cash flow from a pool of trust preferred securities issued by wholly-owned trust subsidiaries of insurance holding companies and U.S. financial institutions, which use the proceeds of such issuance to purchase portfolios of debt securities issued by their parent, and capital notes issued by an insurance company or insurance holding company.

"Insurance Trust Preferred CDO Securities" means CDO Obligations that entitle the holders thereof to receive payments that depend primarily (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the securities) on the cash flow from a pool of trust preferred securities issued by a wholly-owned trust subsidiary of an insurance holding company which uses the proceeds of such issuance to purchase a portfolio of debt securities issued by its parent, or capital notes issued by an insurance company or insurance holding company.

"Investment Grade CDO Securities" means CDO Securities with respect to which at least 80% of the assets in the underlying pool are corporate bonds and/or leveraged loans rated "Baa3" or higher by Moody's and "BBB-" or higher by both Standard & Poor's and Fitch (in each case, if rated by such rating agency). For the avoidance of doubt, Investment Grade CDO Securities do not include Synthetic CDO Securities.

"Lottery 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) upon an arrangement which compensates a winner of a state lottery with one lump sum payment in exchange for a pledge of the lottery payments that individual would have received over a future period of time. Therefore, Lottery Receivable Securities are backed by a diversified pool of payments received from various state lottery commissions in exchange for a lump sum payment to a bona fide winner of a given state lottery.

"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.

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"Mutual Fund 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.

"NIM Securities" means Asset-Backed Securities that are rated by Moody's (as to principal balance and a stated coupon) and have a Standard & Poor's Rating and that entitle the holders thereof to receive payments that depend (except for the 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 interest spreads from mortgage securitizations.

"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.

"Other ABS" means (i) a Dollar denominated Asset-Backed Security (other than a CDO Obligation or Guaranteed Asset-Backed Security) or (ii) a beneficial interest in a trust all of the assets of which would satisfy the Eligibility Criteria, in any case, which is of a Specified Type. Other ABS includes ABS REIT Debt Securities.

"Prohibited Security" means any Aerospace and Defense Security, Manufactured Housing Security, Aircraft Lease Security, CDO of CDO Security, Corporate CDO Security (other than a Trust Preferred CDO Security, High Yield CDO Security, Investment Grade CDO Security or Closing Date CDO Obligation) Time Share Security, Trust Preferred Security, Car Rental Receivable Security, Franchise Security, Healthcare Security, Mutual Fund Fees Security, NIM Security, Oil and Gas Security, Project Finance Security, Recreational Vehicle Security, Restaurant and Food Services Security, Structured Settlement Security, Synthetic CDO Security, Tax Lien Security, Chassis Leasing Security,

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Container Leasing Security, Lottery Receivable Security or Tobacco Litigation Security. No Closing Date CDO Obligation or other security listed on Schedule C shall be treated as a Prohibited Security.

"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.

"Restaurant and Food Services 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 may be 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.

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"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.

"Synthetic CDO Security" means a CDO Obligation the issuer of which (i) obtains credit exposure primarily by entering into one or more credit default swaps or total return swaps which reference securities, loans or obligors and (ii) invests the proceeds of such CDO Obligation primarily in high grade investments to secure the Issuer's obligations under the credit default swaps or total return swaps.

"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 and expected loss characteristics closely correlated to one or more Reference Obligations or Reference Obligors (or expected loss characteristics corresponding to losses incurred above and/or below specified thresholds with respect to an entire pool of Reference Obligations or Reference Obligors), but which may provide for a different maturity, interest rate or other non-credit characteristics than such Reference Obligation(s) (if any); *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 unless such security is a Defeased Synthetic Security, (b) such Synthetic Security terminates upon the redemption or repayment in full of all such Reference Obligation(s); (c) such Synthetic Security has a Fitch Rating, a Moody's Rating and a Standard & Poor's Rating or the Rating Condition with respect to Standard & Poor's has been satisfied or such Synthetic Security is a Form Approved Synthetic Security, the Trustee has been notified in writing of the Applicable Recovery Rate assigned by each Rating Agency and the Moody's Rating Factor (and, if such Synthetic Security is not a Single Obligation Synthetic Security, the correlation for purposes of the Diversity Test) assigned by Moody's, (d) as of the date of the Issuer's acquisition of or entry into the Synthetic Security, no amount receivable by the Issuer from the Synthetic Security Counterparty will be subject to withholding tax, unless the Synthetic Security Counterparty is required to make additional payments sufficient to cover any withholding tax imposed at any time; (e) the acquisition (including the manner of acquisition), ownership, entry into, holding, disposition and enforcement of such Synthetic Security will not subject the Issuer to taxation on a net income tax basis in any jurisdiction outside of its jurisdiction of incorporation or cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. Federal income tax purposes; (f) the agreements relating to such Synthetic Security contain "non-petition" and "limited recourse" provisions with respect to the Issuer and (g) in the case of a Defeased Synthetic Security, the agreements relating to such Synthetic Security provide for, on the first day of each payment period under such Synthetic Security, the full payment of all amounts owing for such period by the Synthetic Security Counterparty to the Issuer into the Synthetic Security Issuer Account.

"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

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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 Litigation 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 lawyer fee awards and state awards as a result of the settlement of litigation between the states and certain tobacco companies.

"Trust Preferred CDO Securities" means Bank Trust Preferred CDO Securities, Hybrid Trust Preferred CDO Securities or Insurance Trust Preferred CDO Securities.

"Trust Preferred Securities" means certain trust preferred securities issued by trust subsidiaries of bank holding companies, thrift holding companies and insurance holding companies.

Ramp-Up Period

During the Ramp-Up Period, the Issuer will use its commercially reasonable efforts to acquire the remainder of the initial portfolio of Collateral Debt Securities. The Issuer will use its commercially reasonable efforts to purchase (or enter into commitments to purchase) Collateral Debt Securities which, together with certain other amounts specified below, will have an Aggregate Principal Balance equal to at least U.S.$1,000,000,000 on September 26, 2005, consisting of at least 175 issuers of Pledged Collateral Debt Securities.

The "Ramp-Up Completion Date" is the date that is the earlier of (a) September 26, 2005 and (b) the first date on which the sum of the Aggregate Principal Balance of the Collateral Debt Securities which the Issuer has purchased or committed to purchase plus the Aggregate Principal Balance of all Eligible Investments purchased with Principal Proceeds on deposit in the Principal Collection Account plus the aggregate amount of all Principal Proceeds distributed on any prior Distribution Date is at least equal to U.S.$1,000,000,000 (in each case, assuming for these purposes (i) settlement in accordance with customary settlement procedures in the relevant markets on the Ramp-Up Completion Date of all agreements entered into by the Issuer to acquire Collateral Debt Securities scheduled to settle on or following the Ramp-Up Completion Date, (ii) that each such Collateral Debt Security is a Pledged Collateral Debt Security and (iii) funds are available from Borrowings under the Class A-1 Notes).

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The Issuer will notify each Rating Agency in writing (a "Ramp-Up Notice") of the occurrence of the Ramp-Up Completion Date within seven Business Days after the Ramp-Up Completion Date occurs. The Issuer will request that each Rating Agency confirm to the Issuer that it has not reduced or withdrawn the rating assigned by it on the Closing Date to any Class of Notes (a "Rating Confirmation"). In the Ramp-Up Notice, the Issuer is required to certify to the Trustee and each Rating Agency that the Coverage Tests and the Collateral Quality Tests have been satisfied. If the Issuer is unable to obtain a Rating Confirmation from each Rating Agency prior to the first Determination Date that is at least 30 Business Days following receipt by such Rating Agency of such Ramp-Up Notice (a "Rating Confirmation Failure"), on the first Distribution Date following such Rating Confirmation Failure, the Issuer will be required to apply Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities) to pay, in part, the principal amount of the Notes in direct order of seniority.

To the extent that such Uninvested Proceeds are insufficient to redeem the Notes to the extent necessary to obtain a Rating Confirmation, on such Distribution Date and on each Distribution Date thereafter, Interest Proceeds and, to the extent that Interest Proceeds are insufficient, Principal Proceeds, will be applied in accordance with the Priority of Payments, to the payment of principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes and *fifth*, the Class D Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation.

Eligibility Criteria

A CDO Obligation, Other ABS Guaranteed Asset-Backed Security or Synthetic Security will be eligible for inclusion during the Ramp-Up Period in the Collateral as a Pledged Collateral Debt Security. No investment may be made in Collateral Debt Securities after the Ramp-Up Completion Date, except to complete any purchase which the Issuer committed to make during the Ramp-Up Period. Immediately after giving effect to each such commitment by the Issuer to invest Uninvested Proceeds in a Collateral Debt Security (and to any other investments in, or sales of, Collateral Debt Securities which the Issuer has on or prior to such date committed to make), each of the following criteria (the "Eligibility Criteria") must be satisfied with respect to such Collateral Debt Security except as specified below:

Assignable	(1) the Underlying Instrument pursuant to which such security was issued permits the Issuer to purchase it and pledge it to the Trustee and such security is a type subject to Article 8 or Article 9 of the UCC;
Jurisdiction of obligor/issuer	(2) the obligor on or issuer of such security (x) is organized or incorporated under the laws of the United States or a State thereof or in a Special Purpose Vehicle Jurisdiction or (y) is a Qualifying Foreign Obligor; *provided* that the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are issued by Qualifying Foreign Obligors located in the United Kingdom and Canada do not exceed 10% and 15%, respectively, of the Net Outstanding Portfolio Collateral Balance and the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are issued by Qualifying Foreign Obligors located in all other jurisdictions (other than the United States, the United Kingdom, Canada or a Special Purpose Vehicle Jurisdiction) does not exceed 2.5% of the Net Outstanding Portfolio Collateral Balance;
Dollar denominated	(3) such security is denominated and payable only in Dollars and may not be converted into a security payable in any other currency;

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Fixed principal amount; No Interest Only Securities

(4) other than any Defeased Synthetic Security, such security requires the payment of a fixed amount of principal in cash no later than its stated maturity or termination date;

Rating

(5) such security (A) has a Moody's Rating, a Standard & Poor's Rating and a Fitch Rating, (B) if publicly rated by Moody's, Standard & Poor's or Fitch, the lowest of such ratings is at least "A3" or "A-," as applicable, (C) the Moody's Rating of such security is at least "A3"; *provided* that (i) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that have a public rating of below "Aaa" by Moody's (if publicly rated by Moody's) or below "AAA" from Standard & Poor's (if publicly rated by Standard & Poor's) or below "AAA" by Fitch (if publicly rated by Fitch) does not exceed 80% of the Net Outstanding Portfolio Collateral Balance, (ii) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that have a public rating of below "Aa3" by Moody's (if publicly rated by Moody's) or below "AA-" from Standard & Poor's (if publicly rated by Standard & Poor's) or below "AA-" by Fitch (if publicly rated by Fitch) does not exceed 20% of the Net Outstanding Portfolio Collateral Balance, and (iii) that each CDO Obligation will have a Moody's Rating of at least "Aa3," a Standard & Poor's Rating of at least "AA-" and a Fitch Rating of at least "AA-" and, if publicly rated by Moody's, Standard & Poor's or Fitch, the lowest of such ratings shall be at least "Aa3" or "AA-," as applicable and (D) the Standard & Poor's rating thereof does not contain the subscript "r," "t," "p," "pi" or "q";

Registered form

(6) such security is in registered form for U.S. Federal income tax purposes and was issued after July 18, 1984; *provided* that an interest in a trust treated as a grantor trust for U.S. Federal income tax purposes will not be treated as in registered form unless each of the obligations or securities held by such trust was issued after July 18, 1984; and *provided further* that a Synthetic Security or a Reference Obligation need not be in such registered form unless, in either case, failure to be in such registered form would cause such security to be subject to withholding tax;

No withholding

(7) the Issuer will receive payments due under the terms of such security and proceeds from disposing of such 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;

Does not subject Issuer to tax on a net income basis

(8) the Issuer will not (i) be treated as engaged in a U.S. trade or business for U.S. Federal income tax purposes or otherwise be subject to tax on a net income basis in any jurisdiction outside the Issuer's jurisdiction of incorporation as a result of the acquisition (including the manner of acquisition), ownership, enforcement or disposition of such security or (ii) upon disposition of such security, be subject to U.S. Federal income or withholding tax under Section 897 or Section 1445 of the Code and the Treasury Regulations promulgated thereunder on any gain realized on such disposition;

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Does not subject Issuer to Investment Company Act restrictions	(9) the acquisition (including the manner of acquisition), ownership, enforcement and disposition of such security will not cause the Issuer or the pool of Collateral to become an investment company required to be registered under the Investment Company Act;
ERISA	(10) such security is not a security that, pursuant to 29 C.F.R. Section 2510.3-101, (x) would be treated as an equity interest in an entity and (y) if held by an employee benefit plan subject to ERISA, would cause such employee benefit plan to be treated as owning an undivided interest in each of the underlying assets of such entity for purposes of ERISA;
No Defaulted Securities, Credit Risk Securities or Written Down Securities	(11) such security is not a Defaulted Security, a Credit Risk Security or a Written Down Security;
Purchase price	(12) other than any Defeased Synthetic Security, the purchase price of such security is not less than (A) 75% of its outstanding principal balance *multiplied by* (B) the Adjusted Issue Price of such security;
No foreign exchange controls	(13) payments in respect of such security are not made from 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;
No Margin Stock	(14) such security is not, and any Equity Security acquired in connection with such security is not, Margin Stock;
No debtor-in-possession financing	(15) such security is not a financing by a debtor-in-possession in any insolvency proceeding;
No optional or mandatory conversion or exchange	(16) such security is not a security that by the terms of its Underlying Instruments provides for conversion or exchange (whether mandatory, at the option of the issuer or the holder thereof or otherwise) into equity capital at any time prior to its maturity;
Not subject to an Offer or called for redemption	(17) such security is not the subject of an Offer (other than an Offer to exchange such security for a security that constitutes a Collateral Debt Security and that such Offer is registered under the Securities Act or such security is issued pursuant to Rule 144A (or another exemption from registration) under the Securities Act, where the replacement security would have terms that are similar to, or more favorable to the Issuer than, the security being exchanged) and has not been called for redemption;

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No future advances

(18) such security is not a security with respect to which the Issuer is required by the Underlying Instruments to make any payment or advance to the issuer thereof or to the related Synthetic Security Counterparty (other than a Defeased Synthetic Security);

Fixed Rate Securities

(19) if such security (including any Single Obligation Synthetic Security as to which the Reference Obligation) is a Fixed Rate Security, a Deemed Fixed Rate Security or a Hybrid Security currently bearing interest at a fixed rate, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 20% of the Net Outstanding Portfolio Collateral Balance;

Pure Private Collateral Debt Securities

(20) if such security (including any Single Obligation Synthetic Security as to which the Reference Obligation) is a Pure Private Collateral Debt Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;

Guaranteed Asset-Backed Securities

(21) if such security (including any Single Obligation Synthetic Security as to which the Reference Obligation) is a Guaranteed Asset-Backed Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 1.0% of the Net Outstanding Portfolio Collateral Balance and, if such security is a Monoline Guaranteed Security, the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Monoline Guaranteed Securities does not exceed 1.0% of the Net Outstanding Portfolio Collateral Balance;

Single Servicer

(22) with respect to the Servicer of the security being acquired:

(A) if the Servicer is ranked (1) "Strong" or has a credit rating of "AA-" or higher by Standard & Poor's, (2) "SQ1" or has a credit rating of "Aa3" or higher by Moody's and (3) "S1" by Fitch (or, if such Servicer does not have a servicer rating by Fitch, has a credit rating of "AA-" or higher by Fitch), the Aggregate Principal Balance of all Pledged Collateral Debt Securities serviced by such Servicer (together with the Aggregate Principal Balance of any Single Obligation Synthetic Securities the Reference Obligations of which are such securities) does not exceed 15% of the Net Outstanding Portfolio Collateral Balance;

(B) if the Servicer (1) is ranked (x) "Above Average" or higher or has a credit rating of "A-" or higher by Standard & Poor's, (y) "SQ2" or higher or has a credit rating of "A3" or higher by Moody's and (z) "S2" or higher by Fitch (or, if such Servicer does not have a servicer rating by Fitch, a credit rating of "A-" or higher) and (2) does not meet the ratings requirements of clause (A), the Aggregate Principal Balance of all Pledged Collateral Debt Securities serviced by such Servicer (together with the Aggregate Principal Balance of any Single Obligation Synthetic Securities the Reference Obligations of which are such securities) does not exceed 10% of the Net Outstanding Portfolio Collateral Balance; or

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(C) if the Servicer does not meet the ratings requirements of either of clauses (A) or (B), the Aggregate Principal Balance of all Pledged Collateral Debt Securities serviced by such Servicer (together with the Aggregate Principal Balance of any Single Obligation Synthetic Securities the Reference Obligations of which are such securities) does not exceed 7.5% of the Net Outstanding Portfolio Collateral Balance; and

(D) if such Servicer is Countrywide Financial Corporation ("Countrywide") (or, if an affiliate of Countrywide is required to perform the obligations of Countrywide, such affiliate), the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are serviced by Countrywide (together with the Aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligations of which are such securities) does not exceed 20% of the Net Outstanding Portfolio Collateral Balance; *provided* that Collateral Debt Securities that are serviced by Countrywide shall not be subject to or included in the requirements of (A), (B) or (C) above with respect to this clause (22);

Synthetic Securities

(23) if such security is a Synthetic Security, as applicable, then (A) such Synthetic Security is acquired from (or entered into with) a Synthetic Security Counterparty, (B) the Aggregate Principal Balance of all Pledged Collateral Debt Securities constituting Synthetic Securities acquired from (or entered into with) any single Synthetic Security Counterparty and its Affiliates that are Defeased Synthetic Securities does not exceed 25% of the Net Outstanding Portfolio Collateral Balance, or, in the case of all Synthetic Securities with such single Synthetic Security Counterparty which are not a Defeased Synthetic Security, 10% of the Net Outstanding Portfolio Collateral Balance, (C) the Aggregate Principal Balance of all Pledged Collateral Debt Securities constituting Synthetic Securities which are credit-linked notes acquired from any single Synthetic Security Counterparty and its Affiliates does not exceed 10% of the Net Outstanding Portfolio Collateral Balance, (D) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Synthetic Securities does not exceed 25% of the Net Outstanding Portfolio Collateral Balance and (E) (i) in the case of a Single Obligation Synthetic Security, any Reference Obligation to which such Synthetic Security relates would (treating the acquisition of the Synthetic Security as acquisition of the Reference Obligation from the Synthetic Security Counterparty) satisfy clauses (7) and (8) of the Eligibility Criteria or (ii) the Issuer and the Trustee receive written advice from nationally recognized U.S. tax counsel to the effect that such Synthetic Security satisfies clauses (7) and (8) of the Eligibility Criteria;

CDO Obligations

(24) if such security (including any Single Obligation Synthetic Security as to which the Reference Obligation is a CDO Obligation) is a CDO Obligation, (A) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are CDO Obligations does not exceed 25% of the Net Outstanding Portfolio Collateral Balance, (B) the Collateral Manager or an Affiliate thereof is not the collateral manager for the CDO Obligation, (C) if such security is a Trust Preferred CDO Security, the Aggregate Principal Balance of all such Trust Preferred CDO Securities does not exceed 2.2% of the Net Outstanding Portfolio Collateral Balance, *provided* that the Aggregate Principal Balance of all Trust Preferred CDO Securities publicly rated below "Aaa" by Moody's (if publicly rated by Moody's) or below "AAA" by Standard & Poor's (if publicly

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rated by Standard & Poor's) does not exceed 1.5% of the Net Outstanding Portfolio Collateral Balance; and (D) if such security is an Investment Grade CDO Security or a High Yield CDO Security (other than the Closing Date CDO Obligations), the Aggregate Principal Balance of all such securities does not exceed 4.25% of the Net Outstanding Portfolio Collateral Balance, *provided* that the Aggregate Principal Balance of all Investment Grade CDO Securities or High Yield CDO Securities (other than the Closing Date CDO Obligations), publicly rated below "Aaa" by Moody's (if publicly rated by Moody's) or below "AAA" by Standard & Poor's (if publicly rated by Standard & Poor's) does not exceed 2.0% of the Net Outstanding Portfolio Collateral Balance;

Frequency of Interest Payments

(25) (A) such security provides for periodic payments of interest in cash not less frequently than semi-annually and (B) if such security provides for periodic payments of interest in cash less frequently than quarterly, the Aggregate Principal Balance of all Pledged Collateral Debt Securities that provide for periodic payments of interest in cash less frequently than quarterly (together with the Aggregate Principal Balance of any Synthetic Securities related thereto) does not exceed 10% of the Net Outstanding Portfolio Collateral Balance;

Step-Down Bonds/Step-Up Bonds

(26) (A) if such security (including any Synthetic Security as to which the sole Reference Obligation) is a Step-Down Bond, the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Step-Down Bonds does not exceed 5% of the Net Outstanding Portfolio Collateral Balance; and (B) if such security (including any Synthetic Security as to which the sole Reference Obligation) is a Step-Up Bond, the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Step-Up Bonds does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;

Collateralized Mortgage Obligation

(27) if such security is a collateralized mortgage obligation that is a Floating Rate Security, then such security does not have a cap on its interest rate (excluding caps based on available funds or calculated based on scheduled interest expected to be received on the underlying collateral) of lower than 7.5% *per annum*, and the Aggregate Principal Balance of all such Pledged Collateral Debt Securities with capped interest rates does not exceed 5% of the Net Outstanding Portfolio Collateral Balance, *provided* that no such Floating Rate Securities may be Inverse Floating Rate Securities;

Collateral Quality Tests

(28) each of the applicable Collateral Quality Tests is satisfied or, if immediately prior to such acquisition one or more of such Collateral Quality Tests was not satisfied, the extent of compliance with any such Collateral Quality Test which was not satisfied is maintained or improved by such acquisition;

Prohibited Securities

(29) such security is not a Prohibited Security;

Limitation on Stated Maturity

(30) such security does not have a Stated Maturity that occurs later than the Stated Maturity of the Notes (except that the Issuer may acquire a Collateral Debt Security having a Stated Maturity not later than five years after the Stated Maturity of the Notes so long as the Aggregate Principal Balance of all such

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Collateral Debt Securities does not exceed 10% of the Net Outstanding Portfolio Collateral Balance;

PIK Bonds

(31) if such security is a PIK Bond, (i) it is not a Deferred Interest PIK Bond, (ii) it has a rating from Moody's of at least "Aa3" and a rating from Standard & Poor's of at least "AA-" and (iii) the Aggregate Principal Balance of all such PIK Bonds does not exceed 2.2% of the Net Outstanding Portfolio Collateral Balance;

Floating Rate Securities

(32) if such security is a Floating Rate Security, a Deemed Floating Rate Security or a Hybrid Security currently bearing interest at a floating rate (including any Single Obligation Synthetic Security, which, taking into account the investments in the Synthetic Security Counterparty Account, provides for payments at a floating rate), (i) the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 90% of the Net Outstanding Portfolio Collateral Balance and (ii) such Security is not an Inverse Floating Rate Security;

Deemed Floating Rate Securities; Deemed Fixed Rate Securities

(33) if such security is a Deemed Floating Rate Security or a Deemed Fixed Rate Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;

Single Issuer Concentration

(34) after giving effect to acquisition of such security, the Aggregate Principal Balance of all Pledged Collateral Debt Securities issued by the issuer of such security does not exceed 1.0% of the Net Outstanding Portfolio Balance;

Weighted Average Life

(35) (A) if such security (including, in the case of any Single Obligation Synthetic Security, the related Reference Obligation) has (i) an Average Life of at least 8.5 years but less than 12 years, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 17% of the Net Outstanding Portfolio Collateral Balance, (ii) an Average Life of at least 10.1 years but less than 12 years, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 6% of the Net Outstanding Portfolio Collateral Balance, (B) the Aggregate Principal Balance of all Pledged Collateral Debt Securities with an Average Life greater than 8.1 years and that are publicly rated "AA-", "AA" or "AA+" by Standard & Poor's or "Aa3", "Aa2" or "Aa1" by Moody's does not exceed 6.0% of the Net Outstanding Portfolio Collateral Balance; (C) the Weighted Average Life of all Pledged Collateral Debt Securities publicly rated "AA-", "AA" or "AA+" by Standard & Poor's or "Aa3", "Aa2" or "Aa1" by Moody's does not exceed 5.9 years; (D) the Weighted Average Life of all Pledged Collateral Debt Securities publicly rated "A-", "A" or "A+" by Standard & Poor's or "A3", "A2" or "A1" by Moody's does not exceed 4.4 years; (E) if such Pledged Collateral Debt Security is publicly rated "A-", "A" or "A+" by Standard & Poor's or "A3", "A2" or "A1" by Moody's, its Average Life does not exceed 6.0 years; (F) if such Pledged Collateral Debt Security has an Average Life of at least 10.1 years, such Pledged Collateral Debt Security may not be a CDO Obligation, (G) such security does not have an Average Life of greater than 12 years; (H) the Weighted Average Life of all Pledged Collateral Debt Securities that are CDO Obligations does not exceed 6.7 years; (I) the Weighted Average Life of all

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Pledged Collateral Debt Securities that are Investment Grade CDO Securities or High Yield CDO Securities does not exceed 4.4 years; and (J) if such Pledged Collateral Debt Security is an Investment Grade CDO Security or a High Yield CDO Security, its Average Life does not exceed 5.5 years, provided, that in each case above in clause (A) through (J), if such security is publicly rated by Moody's and Standard & Poor's, the lower of such ratings shall apply;

Mortgage-Backed Securities (36) after giving effect to acquisition of such security, the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Residential A Mortgage Securities, Residential B/C Mortgage Securities, Home Equity Loan Securities, CMBS Conduit Securities, CMBS Credit Tenant Lease Securities and CMBS Large Loan Securities that are not Monoline Guaranteed Securities is at least 70% of the Net Outstanding Portfolio Collateral Balance; and

Principal Only Securities (37) if such security is a Principal Only Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance and it is rated by Standard & Poor's.

"Aggregate Principal Balance" means, when used with respect to any Pledged Securities or Collateral Debt Securities as of any date of determination, the sum of the Principal Balances on such date of determination of all such Pledged Securities or Collateral Debt Securities.

"Closing Date CDO Obligations" means Solstice ABS CBO, Ltd (CUSIP #83436YAB1) and Helios Series 1 Multi Asset CBO, Ltd. (CUSIP #423279AA6).

"Inverse Floating Rate Security" means a 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.

"Qualifying Foreign Obligor" means a corporation, partnership or other entity located in any of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, 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" (and if rated "Aa2" is not on watch for downgrade) or better by Moody's and "AA" or better by Standard & Poor's and Fitch.

In the case of a commitment made after the Closing Date, if the Issuer has made a commitment to acquire a security, then the Eligibility Criteria need not be satisfied when the Issuer Grants such security to the Trustee if (A) the Issuer acquires such security within, in the case of new issuances of mortgage-backed securities, 45 days, and otherwise, 30 days, of making the commitment to acquire such security and (B) the Eligibility Criteria were satisfied immediately after the Issuer made such commitment. If the Issuer enters into a transaction during the Ramp-Up Period to acquire a security on a forward sale basis pursuant to the Master Forward Sale Agreement, then, notwithstanding anything in the Indenture to the contrary (including the Eligibility Criteria), such security may be acquired by the Issuer on any date during the Ramp-Up Period at the price specified in the Master Forward Sale Agreement. With respect to paragraphs (2), (5), (19) through (28), and (30) through (37) above, if at any time any requirement set forth therein is not satisfied immediately prior to the acquisition of the related securities, such requirement is deemed satisfied if the extent of non-compliance with such requirement is not made worse after giving effect to such acquisition.

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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 (including any commitment made pursuant to the Master Forward Sale Agreement) entered into by the Issuer prior to the occurrence of such Event of Default.

The Issuer may not acquire any Collateral Debt Security from the Collateral Manager, the Trustee or any affiliate thereof, unless such acquisition is made (a) on an "arm's-length basis" and is effected in a secondary market transaction on terms at least as favorable to the Noteholders as transactions with third parties or (b) pursuant to the Warehouse Agreement or Master Forward Sale Agreement. Acquisitions or dispositions of Collateral Debt Securities in the manner specified in "Security for the Notes—Dispositions of Collateral Debt Securities" will be deemed to have met these standards.

"Current Interest Rate" means, as of any date of determination, (i) with respect to any Fixed Rate Security, the stated rate at which interest accrues on such Fixed Rate Security and (ii) with respect to any Deemed Fixed Rate Security, the Deemed Fixed Spread plus the Deemed Fixed Rate, each related to such Deemed Fixed Rate Security.

"Current Spread" means, as of any date of determination, (a) with respect to any Floating Rate Security, the stated spread above or below the London Interbank Offered Rate or other applicable floating rate index for such Floating Rate Security at which interest accrues on such Floating Rate Security and (b) with respect to any Deemed Floating Rate Security, the Deemed Floating Rate plus the Deemed Floating Spread, each related to such Deemed Floating Rate Security. For the purpose of this definition, in the determination of LIBOR, such definition shall be applied as if such Floating Rate Security were a Note and using an Interest Period based on the terms of such Floating Rate Security.

"Deemed Fixed Rate" means, with respect to a Deemed Fixed Rate Security, a rate equal to the fixed rate that the relevant Hedge Counterparty agrees to pay to the Issuer under the related Deemed Fixed Rate Hedge Agreement.

"Deemed Fixed Rate Hedge Agreement" means, with respect to a Floating Rate Security, an agreement consisting of an ISDA Master Agreement and Schedule and an interest rate swap confirmation with a Hedge Counterparty having a notional amount (or scheduled notional amounts) equal to the principal amount (as it may be reduced by expected amortization) of such Floating Rate Security.

"Deemed Fixed Rate Security" means a Floating Rate Security the interest rate of which is hedged into a Fixed Rate Security pursuant to the terms of a Deemed Fixed Rate Hedge Agreement.

"Deemed Fixed Spread" means, with respect to a Deemed Fixed Rate Security, the spread above or below LIBOR on the Floating Rate Security that comprises such Deemed Fixed Rate Security less the amount of such spread, if any, required to be paid to the relevant Hedge Counterparty. For the purpose of this definition, in the determination of LIBOR, the definition thereof shall be applied as if such Floating Rate Security were a Note and using an Interest Period based on the terms of such Floating Rate Security.

"Deemed Floating Rate" means, with respect to a Deemed Floating Rate Security, the floating rate in excess of or less than LIBOR that the relevant Hedge Counterparty agrees to pay to the Issuer under a Deemed Floating Rate Hedge Agreement.

"Deemed Floating Rate Hedge Agreement" means, with respect to a Fixed Rate Security, an agreement consisting of an ISDA Master Agreement and Schedule and an interest rate swap confirmation with a Hedge Counterparty having a notional amount (or scheduled notional amounts) equal to the principal amount (as it may be reduced by expected amortization) of such Fixed Rate Security.

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"Deemed Floating Rate Security" means a Fixed Rate Security the interest rate of which is hedged into a Floating Rate Security pursuant to the terms of a Deemed Floating Rate Hedge Agreement.

"Deemed Floating Spread" means, with respect to a Deemed Floating Rate Security, the difference between the stated rate at which interest accrues on the Fixed Rate Security that comprises such Deemed Floating Rate Security and the Fixed Payment Rate.

"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 or the Collateral Manager 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 (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's) and not less than "AA+" by Standard & Poor's and Fitch in the case of long-term debt obligations, or "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and "A-1+" by Standard & Poor's and "F1+" by Fitch in the case of commercial paper and short term debt obligations including time deposits; *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 "A1" by Moody's (and, if such rating is "A1," such rating is not on watch for possible downgrade by Moody's) 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 Fitch;

(d) unleveraged repurchase obligations with respect to (i) any security described in clause (b) above or (ii) any other Registered obligation 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 (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's) and not less than "AA+" by Standard & Poor's and Fitch or whose short term credit rating is "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and "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, if such rating is "Aa2," such rating is not on watch for possible downgrade 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

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of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and 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 (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's) and not less than "AA+" by Standard & Poor's and 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 (and such rating is not on watch for possible downgrade by Moody's) and "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, if such rating is "Aa2," such rating is not on watch for possible downgrade 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 Fitch;

(g) Registered reinvestment agreements issued by any bank, or a Registered reinvestment agreement issued by any insurance company or other corporation or entity organized under the laws of the United States or any state thereof (if treated as debt by the issuer), in each case, that has a credit rating of "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and "A-1+" by Standard & Poor's and "F1+" by Fitch; *provided* that (i) in any 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, if such rating is "Aa2," such rating is not on watch for possible downgrade 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 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 Moody's and a rating of "AAAm" by Standard & Poor's and Fitch (if rated by Fitch); *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) or (h)), 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 (a) any mortgaged-backed security, (b) any security that does not provide for payment or repayment of a stated principal amount in one or more installments, (c) any security purchased at a price in excess of 100% of the par value thereof, (d) any investment the income from or proceeds of disposition of which is or will be subject to reduction for or on account of any withholding or similar tax, (e) any security the acquisition (including the manner of acquisition), ownership, enforcement or disposition of which will subject the Issuer to net income tax in any jurisdiction, (f) any Floating Rate Security (other than the time deposits described in paragraph (c) above) 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 or minus a spread; (g) any security whose rating by Standard & Poor's includes the subscript "r," "t," "p," "pi" or "q", (h) any security that is subject to an Offer; or (i) any security that the Collateral Manager determines to be subject to substantial non-credit-related risk; *provided* that notwithstanding the foregoing, when used in relation to a Synthetic Security Counterparty Account, Eligible Investments shall include any investments approved in writing by the related Synthetic Security Counterparty. Eligible Investments may be obligations of, and may be purchased from, the Trustee and its Affiliates, and may

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include obligations for which the Trustee or an Affiliate thereof receives compensation for providing services.

"Emerging Market Issuer" means a sovereign or non-sovereign issuer organized in a country that is in Latin America, Asia, Africa, Eastern Europe or the Caribbean or in a country the Dollar-denominated obligations of which are rated lower than "Aa2" by Moody's (or are rated "Aa2" and are on watch for possible downgrade by Moody's) and which has a foreign currency rating lower than "AA" by Standard & Poor's; *provided* that an issuer of Asset-Backed Securities organized in a Special Purpose Vehicle Jurisdiction shall not be an Emerging Market Issuer for purposes hereof if the underlying collateral of such Asset-Backed Securities consists solely of (x) obligations of obligors located in the United States and (y) obligations of Qualifying Foreign Obligors.

"Fixed Rate Security" means any Collateral Debt Security other than (i) a Floating Rate Security and (ii) a Deemed Floating Rate Security.

"Floating Rate Security" means any Collateral Debt Security (other than a Deemed Fixed Rate Security) that is expressly stated to bear interest based on a floating rate index for Dollar denominated obligations commonly used as a reference rate in the United States or the United Kingdom.

"Issue" of Collateral Debt Securities means Collateral Debt Securities issued by the same issuer, secured by the same collateral pool. For Single Obligation Synthetic Securities, the issuer shall be determined based on the Reference Obligation rather than the Synthetic Security.

"Margin Stock" means "margin stock" as defined under Regulation U issued by the Board of Governors of the Federal Reserve System.

"Moody's Rating Trigger" means that the rating assigned by Moody's to any Class of Notes on the Closing Date has been (i) withdrawn, (ii) reduced by at least one subcategory in the case of the Class A-1 Notes, Class A-2 Notes or the Class B Notes, or (iii) reduced by two or more subcategories in the case of the Class C Notes or the Class D Notes, in each case from the rating assigned by Moody's on the Closing Date (and not restored to the rating assigned on the Closing Date or, with respect to the Class C Notes or the Class D Notes, not restored within one subcategory of the rating assigned by Moody's on the Closing Date).

"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 the related 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 related Underlying Instrument.

"Pure Private Collateral Debt Security" means any Collateral Debt Security other than (a) a Collateral Debt Security that was issued pursuant to an effective registration statement under the Securities Act or (b) a privately placed Collateral Debt Security that is eligible for resale under Rule 144A or Regulation S under the Securities Act.

"Rating Condition" means with respect to any action taken or to be taken under the Indenture, a condition that is satisfied when (i) each of Standard & Poor's and Moody's (or if the Indenture expressly so specifies in respect of such action, the specified Rating Agency) has confirmed in writing to 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 by such Rating Agency of any Class of Notes and

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(ii) the Issuer has given written notice of such action to Fitch within 30 days of the action taken or to be taken hereunder.

"Registered" means such security is in registered form for U.S. Federal tax purposes and was issued after July 18, 1984; *provided* that an interest in a trust treated as a grantor trust for U.S. Federal tax purposes will not be treated as in registered form unless each of the obligations or securities held by such trust was issued after that date.

"Servicer" means with respect to any Collateral Debt Security, the entity that, absent any default, event of default or similar condition (however described), is primarily responsible for managing, servicing, monitoring and otherwise administering the cash flows from which payments to investors in such Collateral Debt Securities are made.

"Special Purpose Vehicle Jurisdiction" means (a) the Cayman Islands, the Bahamas, Bermuda, the British Virgin Islands, Guernsey, Jersey, Luxembourg, the Netherlands Antilles or the Channel Islands and (b) any other jurisdiction (x) that is commonly used as the place of organization of special or limited purpose vehicles that issue Asset-Backed Securities, (y) that generally imposes no or nominal tax on the income of special-purpose vehicles and (z) the designation of which as a Special Purpose Vehicle Jurisdiction satisfies the Rating Condition.

"Step-Down Bond" means a security which 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, or constant spread over the applicable index or benchmark rate, 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-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 which 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 shall not include any such security providing for payment of a constant rate of interest, or constant spread over the applicable index or benchmark rate, at all times after the date of acquisition by the Issuer. In calculating any Coverage Test or 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 shall be deemed to be the spread or coupon stated to be payable in cash and in effect on such date.

Asset-Backed Securities

Most of the Collateral Debt Securities will consist of Asset-Backed Securities, including, without limitation, Aerospace and Defense Securities, Automobile Securities, Bank Guaranteed Securities, CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities, Corporate Guaranteed Securities, Credit Card Securities, High-Diversity CDO Securities, Home Equity Loan Securities, Insurance Company Guaranteed Securities, Low-Diversity CDO Securities, REIT Debt Securities—Diversified, REIT Debt Securities—Health Care, REIT Debt Securities—Hotel, REIT Debt Securities—Industrial, REIT Debt Securities— Mortgage, REIT Debt Securities—Multi-Family, REIT Debt Securities—Office, REIT Debt Securities—Residential, REIT Debt Securities—Retail, REIT Debt

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Securities—Storage, Residential A Mortgage Securities, Residential B/C Mortgage Securities, Small Business Loan Securities, Student Loan Securities, Subprime Automobile Securities and Synthetic CDO Securities. "Asset-Backed Securities" are obligations or securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of financial assets, either static 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 such 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, commercial mortgage loans and debt obligations. 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 often backed by trade receivables, though such conduits may also fund commercial and industrial loans and other types of financial and non-financial assets. 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 generally sold in the form of securities to investors through an investment bank or other securities underwriter. Each Asset-Backed Security typically 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 normally 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 normally 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 certain requirements of the senior class (as and to the extent specified in the underlying documents). 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

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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 or placement agent 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 or sponsor 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, including securities collateralized by revolving credit-card receivables, instruments backed by home equity loans, other second mortgages and automobile-finance receivables.

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 typically 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

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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 will be 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

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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.

Most of the Collateral Debt Securities are expected to consist of Residential A Mortgage Securities, Residential B/C Mortgage Securities and Home Equity Loan Securities ("RMBS") meeting the eligibility criteria described herein. The collateral underlying RMBS generally consists of a large, diversified pool of mortgage loans secured by one- to four- family residential properties. The residential mortgage loans themselves may earn interest at fixed, floating or hybrid rates, and provide for full amortization, negative amortization or partial amortization of principal with a balloon payment at maturity.

RMBS may have structural characteristics that distinguish them from other Asset-Backed Securities. The rate of interest payable on RMBS may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap." As a result of this cap, the return to investors is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. In general, early prepayments will have a greater impact on the yield to investors. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors. The Soldiers' and Sailors' Civil Relief Act of 1940 (the "Relief Act") provides relief for soldiers and members of the reserve called to active duty by capping the interest rates on their mortgage loans at 6% *per annum*.

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Residential mortgage-backed transactions may provide that the resulting interest shortfalls be applied to reduce the entitlement of securityholders to payment of such amounts. Furthermore, such reduction in entitlement to interest payments may be allocated on a *pro rata* basis among all classes of securities, irrespective of their relative seniority.

A number of transactions are structured without overcollateralization. If the interest rate payable on the securities is capped at the coupon on the mortgage loan pool, there will not be any excess spread available to cover losses. The sole source of credit support available to a class of securityholders is provided by subordination of more junior classes of securities. Principal on the securities will be written down by losses on the mortgage loan pool, in inverse order of priority. Writedown of the principal balance of a class of securities reduces the amount of interest that would otherwise have been payable to such class at the applicable coupon. In addition, underlying mortgage loans may be segregated into two or more mortgage loan subpools, each of which provides funds for payment of one or more designated classes of securities. These classes may not be fully cross-collateralized. As a result, higher losses and delinquencies experienced by a mortgage loan subpool may have a disproportionate effect on certain classes of securities, although the total underlying mortgage loan pool may be performing within expectations.

RMBS may be in the form of certificates of beneficial ownership of the underlying mortgage loan pool. These securities are entitled to payments provided for in the underlying agreement only when and if funds are generated by the underlying mortgage loan pool. The likelihood of return of interest and principal may be assessed as a credit matter. However, securityholders do not have the legal status of secured creditors, and can not accelerate a claim for payment on their securities, or force a sale of the mortgage loan pool in the event that insufficient funds exist to pay such amounts on any date designated for such payment. The sole remedy available to such securityholders would be removal of the servicer of the mortgage loans.

Local and national economic and demographic factors will impact prepayment rates on residential mortgage loans. Declining interest rates, job transfers and changes in housing needs may result in increased prepayments resulting from loan refinancing or from sale of the underlying mortgaged property. Increased interest rates and unemployment may increase default rates. Decreases in real estate values will result in increases in losses realized on foreclosure on the mortgaged properties following such defaults. Uninsurable natural disasters, such as earthquakes, hurricanes, and floods may also increase delinquencies and defaults and, ultimately, losses realized on foreclosure on the underlying mortgaged property. Residential mortgage loan pools with high concentrations in areas impacted by demographic shifts, economic changes and natural disasters will be disproportionately affected by resulting delinquencies, prepayments and losses. The subprime mortgage pools backing Residential B/C Mortgage Backed Securities are more likely to be affected by such delinquencies, prepayments and losses.

Political events can also impact the performance of a residential mortgage loan pool. Military action by the United States in Iraq and other regions will affect the impact of the Relief Act on interest payable on a pool of residential mortgage loans. Terrorist attacks in the United States may result in Federal agencies and servicers deferring, reducing or forgiving payments or delaying foreclosure proceedings with respect to mortgagors adversely affected by possible future events.

Certain interest rate features of many mortgage loans may increase credit, liquidity and interest rate risk with respect to residential mortgage-backed transactions. Mortgage loans may be structured with balloon payments, which increase the likelihood of default by the borrower at maturity. A number of mortgage loans convert from fixed to floating rates after a fixed period of time or may, at the option of the borrower, be converted to another rate. In addition, floating rate mortgage loans may be priced off of a wide variety of interest rates, which make it difficult to predict expected future interest on a mortgage

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loan portfolio. Certain mortgage loans contain negative amortization provisions which result in capitalization of interest. In certain residential mortgage-backed transactions, negative amortization of mortgage loans in the underlying mortgage pool will result in an equivalent increase in the principal balance of the RMBS themselves, effectively resulting in capitalization of interest on the RMBS.

Some subprime residential mortgage loan transactions include mortgage loans with high loan-to-value ratios and/or junior lien positions, which will affect loss severity on the occurrence of a default. Consumer laws pose additional risks to transactions backed by mortgage loans to borrowers with poor credit ratings. These mortgage loans typically carry higher rates of interest and may be classified as "high cost loans." High cost loans may be subject to certain rules, disclosure requirements and other provisions added to the Federal Truth-in Lending Act by the Home Ownership Protection Act of 1994 and similar state laws. Other Federal and state laws also regulate disclosure and lending practices with respect to residential mortgage loans. See "Risk Factors—Residential Mortgage-Backed Securities." Purchasers of high-cost loans, including the issuer of a Residential ABS Security, could be liable for all claims and subject to all defenses that the borrower could assert against the originator of the mortgage loan.

For purposes of determining compliance with the Eligibility Criteria set forth above, the Asset-Backed Securities to be pledged to the Trustee on Closing Date are divided into the following different "Specified Types":

"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 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 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.

"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)

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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 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.

"Container Leasing Securities" means Asset-Backed Securities (other than Aircraft Lease Securities and Restaurant and Food Services Securities) that entitle the holders thereof to receive

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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 containers to commercial and industrial customers, 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 containers; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the containers for their stated residual value, subject to payments at the end of lease term for excess usage.

"Corporate 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 thereof, is unconditionally guaranteed by a corporation organized in a state of the United States pursuant to a corporate guarantee or other similar instrument, but only if such guarantee or instrument (a) expires no earlier than such stated or actual legal maturity, (b) provides that payment thereunder is independent of the performance by the obligor on such Asset-Backed Security and (c) is issued by a corporation having a credit rating assigned by each nationally recognized statistical rating organization that currently rates such Asset-Backed Security higher than the rating assigned to such Asset-Backed Security determined without giving effect to such corporate guarantee or similar instrument.

"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.

"High-Diversity CDO 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 commercial and industrial loans, asset-backed securities (including collateralized debt obligations), trust preferred and similar securities or corporate debt securities (or any combination of the foregoing), or from one or more credit default swaps which reference such securities or loans and/or the obligors thereon, generally having the following characteristics: (1) such loans and securities have varying contractual maturities; (2) such loans and securities are obligations of issuers that represent a relatively diversified pool of 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 loans or securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of loans or securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (4) in some cases, proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional loans, asset-backed securities and/or corporate 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

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(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 generally 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 loan or line of credit may be secured by residential real estate with a market value (determined on the date of origination of such loan or line of credit) that is less than the original proceeds of such loan or line of credit.

"Insurance Company Guaranteed Securities" means any Monoline Guaranteed Security or Multiline Guaranteed Security.

"Low-Diversity CDO 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 (including collateralized debt obligations), commercial and industrial loans, trust preferred and similar securities or corporate debt securities (or any combination of the foregoing), or from one or more credit default swaps which reference such securities or loans and/or the obligors thereon, generally having the following characteristics: (1) the loans and securities have varying contractual maturities; (2) the loans and securities are obligations of a pool of obligors or issuers that represent a relatively undiversified pool of 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 securities and loans depending on numerous factors specific to the particular issuers and upon whether, in the case of loans or debt securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (4) in some cases, proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional loans and/or debt securities.

"Monoline Guaranteed Security" 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 a Monoline Insurer 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 a Monoline Insurer having a credit rating assigned by a nationally recognized statistical rating organization that currently rates such Asset-Backed Security which is 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.

"Monoline Insurer" means a financial guaranty insurance company that guarantees scheduled interest and principal payments on bonds and writes no other line or type of insurance.

"Multiline Guaranteed Security" 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 a Multiline Insurer 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

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that payment thereunder is independent of the performance by the obligor on the relevant Asset-Backed Security and (3) is issued by a Multiline Insurer having a credit rating assigned to it by a nationally recognized statistical rating organization that currently rates such Asset-Backed Security which is higher than the credit rating assigned by such rating organization that currently rates such Asset-Backed Security which is 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.

"Multiline Insurer" means an insurance company that writes more than one line or type of insurance.

"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 within any other ABS 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.

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"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 mortgages on 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

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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.

"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.

"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

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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.

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

"ABS 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.

"ABS Type Diversified Securities" means (1) Automobile Securities; (2) Car Rental Receivable Securities; (3) Credit Card Securities; (4) Student Loan 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 Diversified Securities" in connection therewith.

"ABS Type Residential Securities" means (1) Home Equity Loan Securities; (2) Residential A Mortgage Securities; (3) Residential B/C Mortgage Securities; and (4) any other type of Asset-Backed Securities that becomes a Specified Type after the Closing Date and is 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.

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

Synthetic Securities

A portion of the Collateral Debt Securities will consist of Synthetic Securities entered into between the Issuer and a Synthetic Security Counterparty.

"Synthetic Security Counterparty" means any entity that is required to make one or more payments on a Synthetic Security if on the date such Synthetic Security is acquired (or entered into) by the Issuer, such entity (or the guarantor of such entity's obligations under such Synthetic Security) is rated at least "A" by Standard & Poor's or has a short-term issuer credit rating from Standard & Poor's of at least "A-1" and has a short-term credit rating of at least "F1" from Fitch or, if there is no short-term credit rating from Fitch, a senior unsecured debt rating of at least "A" by Fitch, and has a long-term unsecured debt rating from Moody's of at least "A3" (and not on credit watch for downgrade), or has a short-term unsecured debt rating from Moody's, if rated by Moody's, of "P1" (and not on credit watch for downgrade), or the selection of such entity satisfies the Rating Condition with respect to any Rating Agency for which the foregoing requirement is not satisfied.

"Reference Obligation" means (i) any CDO Obligation, (ii) Other ABS, (iii) Corporate Debt Security (or Reference Obligor thereon) or (iv) a specified pool of financial assets (including credit

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default swaps) or Reference Obligors, either static or revolving. "Reference Obligor" means, with respect to a Reference Obligation, the obligor on such 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 (i) in the case of any Synthetic Security that does not provide that the Issuer has any (contingent or otherwise) payment obligations to the Synthetic Security Counterparty after an initial payment thereunder, the aggregate amount of the repayment obligations of the Synthetic Security Counterparty payable to the Issuer through the maturity of such Synthetic Security and (ii) in the case of a Defeased Synthetic Security, the balance in the related Synthetic Security Collateral Account reduced by the amount of any payments due and payable to the Synthetic Security Counterparty by reason of the occurrence of one or more "credit events" or other similar circumstances to the extent such payments have not yet been made.

For purposes of the Coverage Tests, unless otherwise specified, a Synthetic Security shall be included as a Collateral Debt Security having the characteristics of the Synthetic Security and not of the related Reference Obligation.

For purposes of the Diversity Test, unless otherwise specified, (i) a Single Obligation 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 the Synthetic Security Counterparty) and (ii) a Synthetic Security that references more than one Reference Obligation will be included as a Collateral Debt Security having the characteristics of the Synthetic Security. For purposes of the Collateral Quality Tests other than the Diversity Test and for purposes of running the Standard & Poor's CDO Evaluator 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(s).

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

On the Ramp-Up Completion Date, in addition to the requirement to satisfy the Eligibility Criteria, the Issuer will be required to satisfy the Collateral Quality Tests. The failure to satisfy any of the Collateral Quality Tests or the Eligibility Criteria as of the Ramp-Up Completion Date would not constitute an Event of Default but such failure could result in a Rating Confirmation Failure and, consequently, the repayment or redemption of a portion of the Notes in accordance with the Priority of Payments. See "Security for the Notes—Ramp-Up Period" and "Description of the Notes—Mandatory Redemption."

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

Ratings Matrix. On any Measurement Date on or after the Ramp-Up Completion Date, any of the rows of the table below (each a "Ratings Matrix"), one of which (as designated from time to time by the Collateral Manager, on behalf of the Issuer) shall be applicable for purposes of the Diversity Test and the Moody's Maximum Rating Distribution Test as described below. The minimum diversity score required

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to satisfy the Diversity Test (the "Designated Minimum Diversity Score") and the Moody's Maximum Rating Distribution required to satisfy the Moody's Maximum Rating Distribution Test (the "Designated Moody's Maximum Rating Distribution") for each Rating Matrix are set forth opposite such Rating Matrix in the table below.

Ratings Matrix	Designated Minimum Diversity Score	Designated Moody's Maximum Rating Distribution
1	41	16
2	47	17
3	53	18
4	59	19
5	65	20

Diversity Test. The "Diversity Test" will be satisfied on any Measurement Date if the Diversity Score on such Measurement Date (rounded to the nearest whole number) is equal to or greater than (a) on the Closing Date and any Measurement Date thereafter, to but excluding, the Ramp-Up Completion Date, 17 and (b) on the Ramp-Up Completion Date, the Designated Minimum Diversity Score for any of Ratings Matrix 1, 2, 3, 4 or 5; *provided* that the applicable Moody's Maximum Rating Distribution on such Measurement Date is equal to or less than the Designated Moody's Maximum Rating Distribution for the same Ratings Matrix. The "Diversity Score" is a single number that indicates collateral concentration implied by Specified Type and Moody's Rating of the Asset-Backed Securities and is calculated as described in the following paragraphs. A higher Diversity Score reflects a more diverse portfolio.

The default risk of Asset-Backed Securities is assumed by the Rating Agencies to be more highly correlated with other Asset-Backed 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.

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

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 p_{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 Re-REMICs that entitle the holders thereof to receive payments that do not depend primarily on Asset-Backed Securities.

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"Re-REMIC" means an Asset-Backed Security the issuer of which is a REMIC (within the meaning of the Code) and whose holders are entitled to receive payments that depend primarily on the cash flow from one or more subordinated tranches of securities issued by other REMICs.

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 is lower than the default correlation among below investment-grade Asset-Backed Securities. Finally, the cross correlation of defaults among various types of Asset-Backed Securities plays an important role as well. In order to take account of issuer concentration and vintage effects, certain assumptions are applied.

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 equal to or less than (a) on the Closing Date and on any Measurement Date thereafter to, but excluding, the Ramp-Up Completion Date, 45 and (b) on the Ramp-Up Completion Date, the Designated Moody's Maximum Rating Distribution for any of Ratings Matrix 1, 2, 3, 4 or 5; *provided* that the applicable Diversity Score on such Measurement Date is the Designated Minimum Diversity Score for the same Ratings Matrix. The "Moody's Maximum Rating Distribution" on any such Measurement Date is the number determined by dividing (i) the summation of the series of products obtained for any Pledged Collateral Debt Security that is not a Deferred Interest PIK Bond, Defaulted Security or Written Down Security, by multiplying (1) the principal balance as of such Measurement Date of each such Pledged Collateral Debt Security by (2) its respective Moody's Rating Factor as of such Measurement Date by (ii) the Aggregate Principal Balance as of such Measurement Date of all Pledged Collateral Debt Securities that are not Deferred Interest PIK Bonds, Defaulted Securities or Written Down Securities and rounding the result up to the nearest whole number.

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:

(a) If a Collateral Debt Security does not have a Moody's Rating at the date of acquisition thereof, the Moody's Rating Factor with respect to such Collateral Debt Security shall be 10,000 until such time as the Collateral Debt Security has a Moody's Rating or another security or obligation of the issuer thereof or obligor thereon is rated by Moody's or the Issuer or the Collateral Manager seeks and obtains an estimate of a Moody's Rating Factor (in which case, 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); and

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(b) With respect to any Synthetic Security, the Moody's Rating Factor shall be determined as specified by Moody's at the time such Synthetic Security is acquired by the Issuer.

The "Moody's Rating" of any Collateral Debt Security is (i) if such Collateral Debt Security is rated (publicly or privately) by Moody's, such rating, and (ii) otherwise, a rating determined in accordance with a methodology more fully described in the Indenture.

The "Standard & Poor's Rating" of any Collateral Debt Security will, if such Collateral Debt Security is rated (publicly or privately) by Standard & Poor's, be such rating, and otherwise, a rating determined in accordance with a methodology more fully described in the Indenture.

Moody's Minimum Weighted Average Recovery Rate Test. The "Moody's Minimum Weighted Average Recovery Rate Test" will be satisfied on any Measurement Date on or after the Closing Date if the Moody's Weighted Average Recovery Rate as of such Measurement Date is greater than or equal to (a) on the Closing Date and each Measurement Date thereafter to, but excluding, the Ramp-Up Completion Date, 44% and (b) on the Ramp-Up Completion Date, 46%.

The "Moody's Weighted Average Recovery Rate" is the number (expressed as a percentage rounded up to the first decimal place) obtained by (a) summing the products obtained by multiplying the Principal Balance of each Collateral Debt Security other than a Defaulted Security or Deferred Interest PIK Bond by its "Applicable Recovery Rate" (determined for purposes of this definition pursuant to clause (a) of the definition of "Applicable Recovery Rate") and (b) dividing such sum by the Aggregate Principal Balance of all such Collateral Debt Securities. For purposes of the Moody's Weighted Average Recovery Rate, the principal balance of a Defaulted Security or a Deferred Interest PIK Bond will be deemed to be equal to its outstanding principal amount (but excluding any deferred interest with respect to a Deferred Interest PIK Bond.)

Weighted Average Spread Test. The "Weighted Average Spread Test" will be satisfied on any Measurement Date if the Weighted Average Spread as of such Measurement Date is equal to or greater than (i) 0.66% on the Closing Date and thereafter to, but excluding, the Ramp-Up Completion Date and (ii) 0.67% on the Ramp-Up Completion Date.

The "Weighted Average Spread" means, as of any Measurement Date, the amount (expressed as a percentage) (rounded up to the next 0.001%) of (a) the number obtained by (i) summing the products obtained by multiplying (x) the Current Spread with regard to each Pledged Collateral Debt Security that is a Floating Rate Security or Deemed Floating Rate Security (other than a Defaulted Security, a Deferred Interest PIK Bond or a Written Down Security) as of such date by (y) the Principal Balance of such Pledged Collateral Debt Security as of such date, and (ii) dividing such amount by the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Floating Rate Securities or Deemed Floating Rate Securities (excluding all Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities) plus (b) if such sum of the numbers obtained pursuant to clause (a) is less than the applicable percentage specified in the definition of "Weighted Average Spread Test", the Fixed Rate Excess, if any, as of such Measurement Date. For purposes of this definition, (1) no contingent payment of interest will be included in such calculation, (2) in the case of any Floating Rate Security that does not bear interest at a rate expressed as a stated spread above a London Interbank Offered Rate, the interest rate payable on such Floating Rate Security on any Measurement Date shall be calculated as a spread above or below LIBOR and (3) if on such Measurement Date such rate is calculated as a spread below a London Interbank Offered Rate, such spread shall be expressed as a negative number for purposes of making the calculation described in clause (i) of the preceding sentence. When calculating the Weighted Average Spread, a Hybrid Security that is bearing interest at a floating rate shall be considered a Floating Rate Security.

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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 5.58% the Closing Date and any Measurement Date thereafter and (b) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Fixed Rate Securities or Deemed Fixed Rate Securities (excluding Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities) and the denominator of which is the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Floating Rate Securities or Deemed Floating Rate Securities (excluding Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities).

Weighted Average Coupon Test. The "Weighted Average Coupon Test" means a test that is satisfied on any Measurement Date if the Weighted Average Coupon as of such Measurement Date is equal to or greater than 5.58%.

The "Weighted Average Coupon" means, as of any 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 with respect to each Pledged Collateral Debt Security that is a Fixed Rate Security or Deemed Fixed Rate Security (other than a Defaulted Security, Deferred Interest PIK Bond or Written Down Security) by (y) the Principal Balance of each such Pledged Collateral Debt Security and (ii) dividing such sum by the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Fixed Rate Securities or Deemed Fixed Rate Securities (excluding all Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities) plus (b) if such sum of the numbers obtained pursuant to clause (a) is less than the applicable percentage specified in the definition of "Weighted Average Coupon Test", the Spread Excess, if any, as of such Measurement Date. For purposes of this definition, no contingent payment of interest will be included in such calculation. When calculating the Weighted Average Coupon, a Hybrid Debt Security that is currently bearing interest at a fixed rate shall be considered a Fixed Rate Security.

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 0.66% on the Closing Date (and thereafter until the Ramp-Up Completion Date) and 0.67% on the Ramp-Up Completion Date and (b) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Floating Rate Securities or Deemed Floating Rate Securities (excluding Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities) and the denominator of which is the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Fixed Rate Securities or Deemed Fixed Rate Securities (excluding Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities).

Weighted Average Life Test. The "Weighted Average Life Test" means a test satisfied if the Weighted Average Life of all Pledged Collateral Debt Securities is equal to or less than 5.85 years.

On any Measurement Date with respect to any Pledged Collateral Debt Securities, 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 such Pledged Collateral Debt Security by (b) the outstanding principal balance of such Pledged Collateral Debt Security and (ii) dividing such sum by the Aggregate Principal Balance at such time of all such Pledged Collateral Debt Securities.

On any Measurement Date with respect to any Pledged 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 Pledged Collateral Debt Security and (b) the respective

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amounts of principal of such scheduled distributions by (ii) the sum of all successive scheduled distributions of principal on such Pledged Collateral Debt Security (as determined by the Collateral Manager).

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 Recovery Rate as of such Measurement Date is equal or greater than (a) with respect to the Class A-1 Notes and the Class A-2 Notes, (1) on the Closing Date and thereafter to, but excluding, the Ramp-Up Completion Date, 49% and (2) on the Ramp-Up Completion Date, 51%; (b) with respect to the Class B Notes, (1) on the Closing Date and thereafter to, but excluding, the Ramp-Up Completion Date,57% and (2) on the Ramp-Up Completion Date, 59%; (c) with respect to the Class C Notes, (1) on the Closing Date and thereafter to, but excluding, the Ramp-Up Completion Date, 65% and (2) on the Ramp-Up Completion Date, 67%; and (d) with respect to the Class D Notes, (1) on the Closing Date and thereafter to, but excluding, the Ramp-Up Completion Date, 70% and (2) on the Ramp-Up Completion Date, 72%.

The "Standard & Poor's Recovery Rate" means, as of any Measurement Date, the number (expressed as a percentage rounded up to the first decimal place) obtained by (a) summing the products obtained by multiplying the Principal Balance of each Pledged Collateral Debt Security on such Measurement Date by its Applicable Recovery Rate (determined for purposes of this definition pursuant to clause (b) of the definition of "Applicable Recovery Rate") and (b) dividing such sum by the Aggregate Principal Balance of all Pledged Collateral Debt Securities on such Measurement Date. For purposes of determining the Standard & Poor's Recovery Rate, the Principal Balance of a Deferred Interest PIK Bond or a Defaulted Security will be deemed to be equal to its Calculation Amount.

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" (as defined in Schedule B) of the Pledged Collateral Debt Securities (calculated in accordance with procedures prescribed by Fitch and more fully described in Schedule B hereto) does not exceed 1.20.

Standard & Poor's CDO Evaluator

The "Standard & Poor's CDO Evaluator" is a dynamic, analytical computer model (including all written instructions and assumptions necessary for running the model) provided by Standard & Poor's to the Issuer, the Collateral Manager and the Collateral Administrator on or prior to the Ramp-Up Completion Date for the purpose of estimating the default risk of Collateral Debt Securities, as amended by Standard & Poor's from time to time.

The Standard & Poor's CDO Evaluator 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.

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 Evaluator. Standard & Poor's makes no representation that actual defaults will not exceed those determined by the Standard & Poor's CDO Evaluator. The Issuer makes no 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.

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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, the Issuer may sell Collateral Debt Securities (including termination of Synthetic Securities) in the following circumstances:

(i) The Issuer may, at the direction of the Collateral Manager, sell (or, in the case of any Synthetic Security, exercise its right, if any, to terminate) any Deferred Interest PIK Bond, Defaulted Security, Written Down Security, Credit Risk Security, Credit Improved Security or Equity Security at any time; *provided* that a Credit Improved Security may be sold only if the Collateral Manager certifies to the Trustee in writing that (a) the Collateral Manager has determined that such security constitutes a Credit Improved Security and (b) 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 such sale will be equal to or greater than the principal balance of the Credit Improved Security being sold;

(ii) The Issuer, at the direction of the Collateral Manager, shall sell (a) any Defaulted Security within three years after such Collateral Debt Security became a Defaulted Security (or by such later date as such Defaulted Security may first be sold in accordance with its terms and applicable law) and (b) any Equity Security or other security or consideration received by the Issuer in exchange for a Defaulted Security that is not Margin Stock and is not a security which may not be purchased under items (8), (9) or (10) of the Eligibility Criteria within one year after the Issuer's receipt thereof (or within one year after such later date as such Equity Security may first be sold in accordance with its terms and applicable law);

(iii) The Issuer, at the direction of the Collateral Manager, shall sell each Equity Security or other security or consideration received by the Issuer in exchange for a Defaulted Security (other than an Equity Security or other security or consideration described in clause (ii) above) not later than five Business Days after the Issuer's receipt thereof (or within five Business Days after such later date as such Equity Security may first be sold in accordance with its terms and applicable law); and

(iv) The Issuer shall, in the event of an Auction Call Redemption, Optional Redemption, Tax Redemption or at the Stated Maturity, direct the Trustee to sell, at the direction of the Collateral Manager, Collateral Debt Securities without regard to the foregoing limitations.

All Sale Proceeds of any Collateral Debt Securities sold by the Issuer as described above will be deposited in the "Principal Collection Account" or "Interest Collection Account," as the case may be, and applied on the Distribution Date immediately succeeding the end of the Due Period in which they were received in accordance with the Priority of Payments.

Any disposition by the Issuer of an Equity Security, a Written Down Security or a Defaulted Security will be conducted on an "arm's-length basis." Any Defaulted Security not sold within three years after such Collateral Debt Security becomes a Defaulted Security will be deemed to have a Principal Balance of zero.

In the event of an Optional Redemption, Auction Call Redemption or a Tax Redemption, the Collateral Manager may direct the Trustee to sell Collateral Debt Securities without regard to the limitations described above that are applicable to sales by the Issuer; *provided* that (i) the proceeds

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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; (ii) such proceeds are used to make such a redemption; and (iii) in the case of an Optional Redemption or Tax Redemption, the Issuer provides a certification as to the Sale Proceeds of the Collateral containing calculations which are confirmed in writing by independent accountants as set forth in the Indenture. See "Description of the Notes—Optional Redemption and Tax Redemption," "—Redemption Procedures" and "—Auction Call Redemption."

The Collateral Manager, its Affiliates and any account for which the Collateral Manager or an Affiliate of the Collateral Manager acts as investment adviser (and for which the Collateral Manager or such Affiliate has discretionary authority) shall be entitled to bid on any Collateral Debt Security to be sold by the Issuer pursuant to the Indenture; *provided* that *bona fide* bids have been received with respect to such Collateral Debt Security from at least two other nationally recognized independent dealers.

"Credit Improved Security" means any Collateral Debt Security that satisfies one of the following criteria: (a) so long as the Moody's Rating Trigger is not in effect, such Collateral Debt Security has shown, in the sole judgment of the Collateral Manager (exercised in the reasonable business judgment of the Collateral Manager in good faith) significantly improved credit quality or (b) such Collateral Debt Security has (i) 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 (ii) has shown, in the sole judgment of the Collateral Manager (exercised in the reasonable business judgment of the Collateral Manager in good faith) significantly improved credit quality.

"Credit Risk Security" means any Collateral Debt Security that satisfies the following criteria: (i) the Collateral Manager believes (as of the date of the Collateral Manager's determination based upon currently available information) has a risk of declining in credit quality and, with lapse of time, becoming a Defaulted Security or a Written Down Security and (ii) so long as the Moody's Rating Trigger is in effect, either (x) 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 or (y) such Collateral Debt Security has experienced an increase in credit spread of 10% or more compared to the credit spread at which such Collateral Debt Security was purchased by the Issuer, determined by reference to the LIBOR reset for a floating rate Collateral Debt Security and by reference to the comparable swap rate for a fixed rate Collateral Debt Security.

"Sale Proceeds" means (i) all proceeds received as a result of the sale of Collateral Debt Securities, Equity Securities and Eligible Investments pursuant to the Indenture, or an Auction, or otherwise, which shall (a) include, in the case of any Synthetic Security, the proceeds of sale of any Deliverable Obligations delivered in respect thereof and any distribution received with respect of property credited to a Synthetic Security Counterparty Account if the Synthetic Security or the Synthetic Security Counterparty's security interest therein is terminated or the Synthetic Security is sold, assigned or terminated prior to its scheduled maturity, and (b) be calculated net of any reasonable out-of-pocket expenses of the Issuer, the Collateral Manager or the Trustee in connection with any such sale; and (ii) all amounts released from a Synthetic Security Counterparty Account (other than any investment income thereon) after payment of all amounts owing by the Issuer to a Synthetic Security Counterparty in accordance with the Indenture.

"U.S. Treasury Benchmark" means for any Collateral Debt Security, the interest rate on U.S. Treasury securities used as a benchmark for that Collateral Debt Security by two market makers, selected by the Collateral Manager, in that Collateral Debt Security.

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The Hedge Agreements

The Issuer will on the Closing Date, enter into an interest rate protection agreement consisting of an interest rate swap, pursuant to a 1992 ISDA Master Agreement. After the Closing Date, at the direction of the Collateral Manager, the Issuer may enter into additional interest rate protection agreements consisting of fixed rate for floating rate interest swaps, basis swaps or interest rate caps with hedge counterparties ("Hedge Counterparties") in accordance with the Indenture. In addition, at the direction of the Collateral Manager, the Issuer may enter into Deemed Fixed Rate Hedge Agreements and Deemed Floating Rate Hedge Agreements, in order to hedge the interest rate risks on the Pledged Collateral Debt Securities. Each of the initial Hedge Agreement, any additional or replacement interest rate protection agreement, any Deemed Fixed Rate Hedge Agreement or any Floating Rate Hedge Agreement, together with any replacement therefor, is referred to herein as a "Hedge Agreement." The Issuer may not enter into additional or replacement Hedge Agreements after the Closing Date without (i) satisfaction of the Rating Condition with respect to Standard & Poor's, and (ii) except as otherwise provided in the initial Hedge Agreement described below, the consent of the Initial Hedge Counterparty.

The initial Hedge Counterparty (the "Initial Hedge Counterparty") is AIG Financial Products Corp. The initial Hedge Agreement will include a fixed/floating interest rate swap and may include a floating/floating interest rate swap. The fixed/floating interest rate swap is intended to protect, in part, against increases in LIBOR payable on the Notes and to mitigate in part (to the extent practicable) the Issuer's exposure to such interest rate risk. Pursuant to the fixed/floating interest rate swap, the Issuer will be obligated to make a fixed rate payment to the Initial Hedge Counterparty and the Initial Hedge Counterparty will be obligated to make a floating rate payment to the Issuer equal to the three-month London Interbank Offered Rate (as defined in the initial Hedge Agreement), in each case based on the notional amount specified in the Hedge Agreement, declining over time to zero. The floating/floating interest rate swap is intended to mitigate in part the basis risk to the Issuer resulting from timing mis-matches between the Floating Rate Securities paying interest based on LIBO rates set at different times throughout an interest accrual period and the Notes which pay interest based on LIBOR set on LIBOR Determination Dates. The notional amount with respect to the floating/floating interest rate swap will decrease over time to zero. Only a single net payment would be made under the initial Hedge Agreement on each Distribution Date. If the aggregate payments owed by the Initial Hedge Counterparty to the Issuer pursuant to the fixed/floating interest rate swap and the floating/floating interest rate swap are greater than the aggregate payments owed by the Issuer pursuant to such swaps, then the Initial Hedge Counterparty will pay the difference to the Issuer. If the aggregate payments owed by the Issuer to the Initial Hedge Counterparty pursuant to the fixed/floating interest rate swap and the floating/floating interest rate swap exceed the aggregate payments owed by the Initial Hedge Counterparty pursuant to such swaps, then the Issuer will pay the difference to the Initial Hedge Counterparty. See "Risk Factors—Interest Rate Risk."

Pursuant to the Priority of Payments, scheduled payments required to be made by the Issuer under each Hedge Agreement, together with any termination payments payable by the Issuer other than Deferred Termination Payments will be payable pursuant to clause (4) under "Description of the Notes—Priority of Payments—Interest Proceeds."

The initial Hedge Agreement which will be in effect on the Closing Date will provide that the Initial Hedge Counterparty will make a payment of U.S.$8,420,000 on the Closing Date to the Issuer (the "Up Front Payment"). The payments to be made by the Issuer to the Initial Hedge Counterparty under the initial Hedge Agreement include the repayment by the Issuer of this Up Front Payment together with interest thereon. The Issuer's obligations to the Initial Hedge Counterparty in respect of repayment of the Up Front Payment, together with interest thereon, will be secured under the Indenture and will be senior in priority to the Issuer's obligations to pay interest on and principal of the Notes.

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In respect of the Initial Hedge Counterparty, the initial Hedge Agreement will provide that:

(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 Initial Hedge Agreement; *provided* that, a Ratings Event will be deemed to have occurred if the Initial Hedge Counterparty has not, within 30 days following a Collateralization Event, (A) provided sufficient collateral as required under the Initial 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 Initial 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 Counterparty in respect of the Initial Hedge Counterparty may require to cause the obligations of the Initial Hedge Counterparty under the Initial Hedge Agreement to be treated by such Rating Agency as if such obligations were owed by a counterparty which satisfies the Hedge Counterparty Ratings Requirement;

(ii) at any time following a Collateralization Event, the Initial Hedge Counterparty may elect, upon 10 days' prior written notice to the Issuer, to transfer the Initial Hedge Agreement and assign its rights and obligations thereunder to another Hedge Counterparty that satisfies the Hedge Counterparty Ratings Requirement and the other requirements set forth in the Initial Hedge Agreement, provided that such transfer satisfies the Rating Condition with respect to Standard & Poor's;

(iii) at any time following a Collateralization Event, the Initial Hedge Counterparty may terminate the Initial 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 the other requirements set forth in the Initial Hedge Agreement and (ii) the entry into any replacement Initial Hedge Agreement in connection with such termination satisfies the Rating Condition with respect to Standard & Poor's; and

(iv) following the occurrence of a Ratings Event, the Initial Hedge Counterparty will be required to assign its rights and obligations under the Initial Hedge Agreement at no cost to the Issuer to a party (the "Substitute Party") selected by the Issuer (with the advice and assistance of the Initial Hedge Counterparty, which advice and assistance will not be unreasonably withheld, and with the Initial Hedge Counterparty paying the costs and expenses of the Issuer in connection therewith) (x) in the case of a Ratings Event occurring as a result of a downgrade, withdrawal or suspension by Moody's or Fitch, within 10 days following such Ratings Event or, if the Issuer does not select a Substitute Party within 10 days following such Ratings Event, to a party selected by the Initial Hedge Counterparty within 20 days following the end of such 10-day period or (y) in the case of a Ratings Event occurring as a result of a downgrade, withdrawal or suspension from Standard & Poor's (an "S&P Ratings Event"), as soon as practicable but in no event later than 10 Business Days following such S&P Ratings Event; *provided* that such an assignment will not comply with this provision unless: (i) as of the date of such transfer neither the Substitute Party nor the Issuer will be required to withhold or deduct on account of any tax from any payments under the assigned agreement; (ii) a "termination event" or "event of default" does not occur under the assigned agreement as a result of such assignment; (iii) each of the transferor and transferee will be a dealer in notional principal contracts; (iv) the Substitute Party satisfies the Hedge Counterparty Ratings

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Requirement; (v) such Substitute Party assumes the obligations of the Initial Hedge Counterparty under the Initial Hedge Agreement (through an assignment and assumption agreement in form and substance reasonably satisfactory to the Issuer) or replaces the outstanding transactions with transactions on substantially identical terms, except that the Initial Hedge Counterparty shall be replaced as counterparty; (vi) the Initial Hedge Counterparty will be responsible for any reasonable costs or expenses (including any stamp tax) incurred by the Trustee or the Issuer (and its agents) in connection with such assignment (including without limitation the reasonable costs of counsel); (vii) such assignment satisfies the Rating Condition with respect to Standard & Poor's; and (viii) payment has been made to the Initial Hedge Counterparty by the Substitute Party or by the Initial Hedge Counterparty to the Substitute Party (as applicable) of the termination payment calculated pursuant to 6(e) of ISDA, or such lesser or greater amount as the Initial Hedge Counterparty and such Substitute Party may agree.

In respect of each Hedge Counterparty other than the Initial Hedge Counterparty:

(i) if a Collateralization Event occurs, such Hedge Counterparty and the Issuer shall enter into an agreement, solely at the expense of such Hedge Counterparty, in the form of an ISDA Credit Support Annex; *provided* that, if such Hedge Counterparty has not, within 30 days following a Collateralization Event, (A) provided sufficient collateral as required under the Hedge Agreement, (B) made an assignment to another Hedge Counterparty, (C) obtained a guarantor with ratings at least equal to the Hedge Counterparty Ratings Requirement for the obligations of such Hedge Counterparty under the Hedge Agreement or (D) taken such other steps as each Rating Agency that has downgraded the Hedge Rating Determining Party in respect of such Hedge Counterparty may require to cause the obligations of the Hedge Counterparty under the Hedge Agreement to be treated by such Rating Agency as if such obligations were owed by a counterparty satisfying the Hedge Counterparty Ratings Requirement, a Ratings Event will be deemed to have occurred; and

(ii) following the occurrence of a Ratings Event, the Issuer may terminate the related Hedge Agreement unless such 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 Hedge Agreement or (ii) if such Hedge Counterparty is unable to assign its rights and obligations within 7 Business Days, enter into any other agreement with or arrangement for the benefit of the Issuer and the Trustee that is reasonably satisfactory to the Collateral Manager on behalf of the Issuer, that satisfies the Rating Condition with respect to Standard & Poor's and with respect to which written notice has been provided to Fitch and Moody's.

Notwithstanding the foregoing, there can be no assurance that, if any rating of a Hedge Counterparty is reduced or withdrawn, the ratings assigned to the Notes will not be reduced or withdrawn. There also can be no assurance that, if a Ratings Event occurs, the Issuer will be able to obtain a replacement Hedge Agreement.

"Collateralization Event" means, in respect of any Hedge Counterparty other than the Initial Hedge Counterparty, the occurrence of any event specified in the applicable Hedge Agreement as a "Collateralization Event." "Collateralization Event" means, with respect to the Hedge Rating Determining Party of the Initial Hedge Counterparty, the occurrence of the following, *provided* that no Ratings Event has occurred:

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(i) (a) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Standard & Poor's falls below "A+" or no such long-term rating from Standard & Poor's exists and (b) the short-term rating of the Hedge Rating Determining Party from Standard & Poor's falls below "A-1" or no such short-term rating from Standard & Poor's exists;

(ii) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Moody's is withdrawn, suspended or falls to "Aa3" (and on credit watch for possible downgrade) or below "Aa3," if the Hedge Rating Determining Party has a long-term rating only;

(iii) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Moody's is withdrawn, suspended or falls to "A1" (and on credit watch for possible downgrade) or below "A1" or the short-term senior unsecured debt rating of the Hedge Rating Determining Party from Moody's, if so rated by Moody's, falls to "P-1" (and on credit watch for possible downgrade) or below "P-1"; or

(iv) the short-term issuer credit rating of the Hedge Rating Determining Party from Fitch is withdrawn, suspended or falls to "F2" or, if no such rating is then available, the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Fitch is withdrawn, suspended or falls below "A."

"Hedge Rating Determining Party" means, with respect to a Hedge Agreement, (a) unless clause (b) applies with respect to such Hedge Agreement, the related Hedge Counterparty or any transferee thereof or (b) any affiliate of the related Hedge Counterparty or any transferee thereof that guarantees (with such form of guarantee satisfying Standard & Poor's then-published criteria with respect to guarantees) the obligations of such Hedge Counterparty or such transferee, as the case may be, under such Hedge Agreement or such other party as specified in the relevant Hedge Agreement. For the purpose of this definition, no direct or indirect recourse against one or more shareholders of such 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 the Hedge Counterparty or any such transferee.

The "Hedge Counterparty Ratings Requirement" means, with respect to a Hedge Counterparty or any permitted 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) 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; and (c) either (i) 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 such short-term debt rating by Moody's, the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated at least "Aa3" by Moody's. The "Hedge Counterparty Ratings Requirement" with respect to any Hedge Counterparty under any Deemed Floating Rate Hedge Agreement or Deemed Fixed Rate Hedge Agreement shall be as set forth above, subject to any amendments to the relevant ratings set forth herein which the Rating Agencies may require, and the Issuer

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shall seek confirmation as to the level of such ratings from each of the Rating Agencies prior to entering into any Deemed Floating Rate Hedge Agreement or Deemed Fixed Rate Hedge Agreement.

"Ratings Event" means, with respect to any Hedge Agreement other than the initial Hedge Agreement, the occurrence of any event specified in the applicable Hedge Agreement as a "Ratings Event." With respect to the initial Hedge Agreement, a "Ratings Event" means any of the following events: (i) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Moody's is withdrawn, suspended or falls below "A2," if the Hedge Rating Determining Party has a long-term rating only; (ii) the long-term senior secured debt rating of the 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 Hedge Rating Determining Party falls to or below "P-2"; (iii) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Standard & Poor's is withdrawn, suspended or falls below "BBB-"; (iv) the short-term issuer credit rating of the Hedge Rating Determining Party from Fitch is withdrawn, suspended or falls below "F2" or, if no such rating is available, the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Fitch is withdrawn, suspended or falls below "BBB+"; or (v) the failure of the Initial Hedge Counterparty to provide, within 10 days following the Collateralization Event, sufficient collateral as required pursuant to the terms set forth in "Collateralization Event" above.

The Hedge Agreements will be subject to termination by the Hedge Counterparty if an "event of default" or "termination agreement" occurs with respect to the Issuer under the Master Agreement or 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 with respect to Standard & Poor's, the Hedge Agreement (other than any basis swap or Deemed Fixed/Floating Rate Hedge Agreement) will be subject to partial termination on such Distribution Date with respect to a portion of the notional amount thereof. In addition, subject to satisfaction of the Rating Condition with respect to Standard & Poor's and the provision of written notice to Fitch and Moody's with respect to such reduction, the Collateral Manager, with the consent of a Majority-in-Interest of Preference Shareholders, may on any Distribution Date direct the Issuer to reduce the notional amount of any interest rate swap outstanding under the Hedge Agreements upon 10 business days' prior written notice to the Hedge Counterparty. 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 a Hedge Counterparty or by the Issuer to the other party under the related Hedge Agreement, with such termination payment being calculated as described herein.

If at any time a Hedge Agreement becomes subject to early termination due to the occurrence of an "event of default" or a "termination event" as to which the Hedge Counterparty party thereto is the sole "defaulting party" or the sole "affected party" (as each such term is defined in the relevant Hedge Agreement), the Issuer and the Trustee shall take such actions (following the expiration of any applicable grace period) to enforce the rights of the Issuer and the Trustee thereunder as may be permitted by the terms of such Hedge Agreement and consistent with the terms hereof, and shall apply the proceeds of any such actions (including the proceeds of the liquidation of any collateral pledged by such Hedge Counterparty) to enter into a replacement Hedge Agreement on substantially identical terms or on such other terms satisfying the Rating Condition with respect to Standard & Poor's, and with a Hedge Counterparty with respect to which the Rating Condition with respect to Standard & Poor's shall have been satisfied; *provided* that the Issuer shall not exercise its right to designate an "Early Termination Date" under and as defined in any Deemed Floating Rate Hedge Agreement or Deemed Fixed Rate Hedge Agreement unless it (or the Collateral Manager on its behalf) shall have first submitted a request to

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Standard & Poor's requesting confirmation that such designation satisfies the Rating Condition with respect to Standard & Poor's and Standard & Poor's shall have confirmed in writing that the Rating Condition with respect to Standard & Poor's will be satisfied with respect to such designation. In determining the amount payable under the terminated Hedge Agreement, the Issuer will seek quotations from reference market-makers that satisfy the Hedge Counterparty Ratings Requirement. In addition, the Issuer will use its best efforts to cause the termination of a Hedge Agreement to become effective simultaneously with the entry into a replacement Hedge Agreement described as aforesaid. Notwithstanding the foregoing, if a Hedge Agreement becomes subject to early termination due to the occurrence of a Subordinated Termination Event, the Issuer agrees not to exercise its right to terminate the relevant Hedge Agreement unless no amounts would be owed by the Issuer to the Hedge Counterparty as a result of such termination or the replacement Hedge Counterparty selected in accordance with the Hedge Agreement pays such termination payment; *provided, however*, in such event, at the option of the Issuer, the Hedge Counterparty shall be required to assign its rights and obligations under the relevant Hedge Agreement and all transactions thereunder at no cost to the Issuer within the period specified in the relevant Hedge Agreement to a party selected by the Issuer with the assistance of the Hedge Counterparty (the "Subordinated Termination Substitute Party"); provided, that such an assignment will not comply with this provision unless certain conditions have been met, including that (A) the Subordinated Termination Substitute Party satisfies the Hedge Counterparty Ratings Requirement; (B) such Subordinated Termination Substitute Party assumes the obligations of the Hedge Counterparty under such Hedge Agreement (through an assignment and assumption agreement in form and substance reasonably satisfactory to the Issuer) or replaces the outstanding transactions under each Hedge Agreement with transactions on substantially identical terms, except that the Hedge Counterparty shall be replaced as counterparty; (C) such assignment satisfies the Rating Condition with respect to Standard & Poor's; (D) the Hedge Counterparty assumes payment of any cost associated with the transfer of the Hedge Agreement and all transactions thereunder to the Subordinated Termination Substitute Party; and (E) payment has been made to the Hedge Counterparty by the Subordinated Termination Substitute Party of an amount payable under the terminated Hedge Agreement in full satisfaction of all amounts due or owing.

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. (the "Master Agreement").

Except as otherwise provided in this paragraph, no Deemed Fixed Rate Hedge Agreement or Deemed Floating Rate Hedge Agreement shall be subject to early termination by the Issuer without satisfaction of the Rating Condition with respect to Standard & Poor's, other than by reason of (A) an event of default or termination event relating to the Issuer or the relevant Hedge Counterparty specified in Section 5 of the ISDA Master Agreement relating to such Hedge Agreement or in the Schedule thereto or (B) an event or condition analogous to any event or condition that would permit the Issuer, pursuant to the terms of the Indenture, to sell or otherwise dispose of the Floating Rate Security or Fixed Rate Security, as applicable, that is the subject of such Deemed Fixed Rate Hedge Agreement or Deemed Floating Rate Hedge Agreement if such Floating Rate Security or Fixed Rate Security, as applicable, were a Pledged Collateral Debt Security. Each Deemed Fixed/Floating Rate Hedge Agreement will be subject to the satisfaction of the Rating Condition with respect to Standard & Poor's (unless it is a Form Approved Hedge Agreement) and to the following conditions: (a) the initial notional balance of each Deemed Fixed/Floating Rate Hedge Agreement shall be equal to the initial scheduled principal amount of the Related Security; (b) each Deemed Fixed/Floating Rate Hedge Agreement will amortize according to the same expected schedule as, and terminate on the expected maturity date of, the Related Security; (c) the payment dates of the Deemed Fixed/Floating Rate Hedge Agreement must match either the payment dates of the Related Security or the payment dates of the Notes; (d) if the Related Security is sold by the Issuer, the Deemed Fixed/Floating Rate Hedge Agreement must be terminated and the amount due or received in

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connection with such termination will be subtracted from or added to the Principal Proceeds received in connection with such sale; (e) (i) if the Related Security is not a Defaulted Security and such Related Security is called or prepaid, the Deemed Fixed/Floating Rate Hedge Agreement must be terminated and any amount received in connection with such termination will be considered Principal Proceeds and any amount payable in connection with such termination will be paid first from any call, redemption and prepayment premiums received from such Related Security and second from Principal Proceeds received from such Related Security and (ii) if the Related Security is a Defaulted Security, the Deemed Fixed/Floating Rate Hedge Agreement must be terminated and any amount received in connection with such termination will be considered Principal Proceeds and any amount payable in connection with such termination will be paid from Interest Proceeds in accordance with the Priority of Payments; (f) each Deemed Fixed/Floating Rate Hedge Agreement will contain appropriate limited recourse and non-petition provisions equivalent to those contained in the Indenture and will require termination if the Related Security becomes a Defaulted Security; and (g) if the Deemed Fixed/Floating Rate Hedge Agreement is terminated by reason of an event of default or termination event relating to the Issuer or the relevant Hedge Counterparty specified in Section 5 of the ISDA Master Agreement relating to such Hedge Agreement or the Schedule thereto, any termination payment due to the Hedge Counterparty shall be payable, *first*, from Interest Proceeds of the Related Security, *second*, from Principal Proceeds of the Related Security, and, *third*, in accordance with the Priority of Payments.

The Trustee shall deposit all collateral received from each Hedge Counterparty under a Hedge Agreement in a securities account in the name of the Trustee that will be designated the "Hedge Counterparty Collateral Account," which will be maintained for the benefit of the Issuer and the related Hedge Counterparty.

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* equal to the interest rate specified in the Hedge Agreement, 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 withdrawing Hedge Counterparty shall not be entitled to receive such termination payments pursuant to the Priority of Payments.

The obligations of the Issuer under the Hedge Agreements are limited recourse obligations payable solely from the Collateral pursuant to the Priority of Payments, and will be secured under the Indenture and will be senior in priority to the Issuer's obligations to pay interest (and Commitment Fee) and principal on the Notes.

"Form-Approved Hedge Agreement" means a Deemed Fixed/Floating Rate Hedge Agreement with respect to which the related Fixed Rate Security or any Floating Rate Security could be purchased by the Issuer without individually satisfying the Rating Condition and with respect to which the documentation conforms to a form which has satisfied the Rating Condition with respect to Standard & Poor's as a Form-Approved Hedge Agreement for specific use in this transaction (as certified to the Trustee by the Collateral Manager).

"Related Security" means, with respect to a Deemed Fixed Rate Hedge Agreement, the related Deemed Fixed Rate Security, and, with respect to a Deemed Floating Rate Hedge Agreement, the related Deemed Floating Rate Security.

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"Deemed Fixed/Floating Rate Hedge Agreement" means a Deemed Fixed Rate Hedge Agreement or a Deemed Floating Rate Hedge Agreement.

The Initial Hedge Counterparty

The information appearing in this section has been prepared by the initial Hedge Counterparty and has not been independently verified by the Co-Issuers, the Collateral Manager, the Trustee or the Initial Purchaser. Accordingly, notwithstanding anything to the contrary herein, none of the Co-Issuers, the Collateral Manager, the Trustee, or the Initial Purchaser assume any responsibility for the accuracy, completeness or applicability of such information.

The initial Interest Rate Hedge Counterparty, AIG Financial Products Corp. ("AIG-FP"), commenced its operations in 1987. AIG-FP and its subsidiaries conduct, primarily as a principal, a financial derivative products business. AIG-FP also enters into investment contracts and other structured transactions and invests in a diversified portfolio of securities. In the course of conducting its business, AIG-FP also engages in a variety of other related transaction.

American International Group, Inc. ("AIG") is the guarantor of the payment obligations of its subsidiary, AIG-FP, with respect to the Hedge Agreements entered into between AIG-FP and the Issuer. AIG, a Delaware corporation, is a holding company that is primarily engaged, through its subsidiaries, in a broad range of insurance and insurance-related activities and financial services in the United States and abroad. Reports, proxy statements and other information filed by AIG with the Securities and Exchange Commission (the "SEC") pursuant to the informational requirements of the Exchange Act can be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such materials can be obtained from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The SEC also maintains a web site at http://www.sec.gov which contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. AIG's Common Stock is listed on the New York Stock Exchange and reports, proxy statements and other information can also be inspected at the Information Center of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Except for the information contained in the preceding two paragraphs, AIG and AIG-FP have not been involved in the preparation of, and do not accept responsibility for, this Offering Circular as a whole.

The Accounts

On or prior to the Closing Date the Trustee will have established each of the following segregated, non-interest bearing trust accounts (the "Accounts"). Any investments of funds in the Accounts will be made in accordance with the direction of the Collateral Manager on behalf of the Issuer.

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 (other than 50% of any interest payments on a semi-annual interest paying security received in cash by the Issuer in any Due Period which will be deposited in the Semi-Annual Interest Reserve Account), and any amounts paid to the Issuer by a Hedge Counterparty under any Hedge Agreement (other than amounts received by the Issuer by reason of an event of default or termination event under a Hedge Agreement or other comparable event that are required to be used for the purchase by the Issuer of a replacement Hedge Agreement) will be remitted to a single, segregated account established and

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maintained under the Indenture by the Trustee (the "Interest Collection Account") which may be a subaccount of the Custodial 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 will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the "Principal Collection Account" which may be a subaccount of the Custodial Account and, together with the Interest Collection Account, the "Collection Accounts"). The Collection Accounts shall be maintained for the benefit of the Secured Parties and amounts on deposit therein will be available, together with investment earnings thereon, for application in the order of priority set forth above under "Description of the Notes—Priority of Payments."

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 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 such proceeds (i) are Interest Proceeds to be used by the Issuer to make scheduled payments due from the Issuer to the Hedge Counterparty under the Hedge Agreement or (ii) are used as otherwise permitted under the Indenture. See "—Eligibility Criteria."

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 Secured Parties all Interest Proceeds and Principal Proceeds received with respect to the related Due Period in the Collection Accounts received during the related Due Period 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."

Semi-Annual Interest Reserve Account

On any date upon which the Issuer receives interest payments in cash in respect of semi-annual interest paying securities, the Trustee will deposit into a single, segregated account established and maintained by the Trustee under the Indenture (the "Semi-Annual Interest Reserve Account") 50% of such interest payments on semi-annual interest paying securities. At least one Business Day prior to each Distribution Date, the Trustee shall transfer all amounts deposited in the Semi-Annual Interest Reserve Account on or prior to the Determination Date preceding the last Distribution Date (including any interest accrued on any such amount) to the Payment Account for application as Interest Proceeds in accordance with the Priority of Payments and such transfer shall be the only permitted withdrawal (other than on the maturity date of the Notes) from, or application of funds on deposit in, or otherwise standing to the credit of, the Semi-Annual Interest Reserve Account.

Uninvested Proceeds Account

On the Closing Date (and following the Closing Date on the date of any Borrowing under the Class A-1 Notes which is not applied on the same date to make a payment due to MLI under the Master Forward Sale Agreement), the Trustee will deposit Uninvested Proceeds into a single, segregated account established and maintained by the Trustee under the Indenture (the "Uninvested Proceeds Account"). 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

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earnings on Eligible Investments in the Uninvested Proceeds Account will be transferred to the Interest Collection Account and treated as Interest Proceeds one Business Day prior to the related Distribution Date.

At least one Business Day prior to the first Distribution Date following the occurrence of either a Rating Confirmation Failure or a Rating Confirmation after the Ramp-Up Completion Date, the Trustee shall transfer any Uninvested Proceeds which are not required to complete purchases of Collateral Debt Securities to the Payment Account, to be treated *first*, as Interest Proceeds, if there has been a Rating Confirmation, in an amount equal to the Interest Excess if there has been a Rating Confirmation and, *second*, as Principal Proceeds, and distributed in accordance with the Priority of Payments; *provided* that such Uninvested Proceeds will be applied first to the payment of principal of the Notes in direct order of seniority if a Rating Confirmation Failure occurs. During the Ramp-Up Period, the Collateral Manager on behalf of the Issuer may by notice to the Trustee direct the Trustee to, and upon receipt of the issuer order, the Trustee shall (i) apply cash in the Uninvested Proceeds Account to purchase Collateral Debt Securities or (ii) withdraw cash in the Uninvested Proceeds Account and deposit it into a Synthetic Security Counterparty Account in connection with the purchase (or entry into) of a Defeased Synthetic Security.

Expense Account

After payment of the organizational and structuring fees, the fee to the Collateral Manager and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Manager and the Initial Purchaser) and the expenses of offering the Offered Securities, on the Closing Date, at least 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"). 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 clauses (b) through (f) of paragraph (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 Administrative Expenses of the Co-Issuers. All funds on deposit in the Expense Account will be invested in Eligible Investments. All amounts remaining on deposit in the Expense Account at the time when substantially all of the Issuer's assets have been sold or otherwise disposed of will be deposited by the Trustee into the Payment Account for application as Interest Proceeds on the immediately succeeding Distribution Date.

Custodial Account

The Trustee will, prior to the Closing Date, cause the Custodian to establish a Securities Account which shall be designated as the "Custodial Account," which shall be held in the name of the Trustee as Entitlement Holder in trust for the benefit of the Secured Parties and into which the Trustee shall from time to time deposit Pledged Securities. All Pledged Securities from time to time deposited in, or otherwise standing to the credit of, the Custodial Account pursuant to the Indenture will be held by the Trustee as part of the Collateral. The Co-Issuers shall not have any legal, equitable or beneficial interest in the Custodial Account other than in accordance with the Priority of Payments.

"Pledged Securities" means on any date of determination, (a) the Collateral Debt Securities, Equity Securities and Eligible Investments that have been granted to the Trustee and (b) all non-cash proceeds thereof, in each case, to the extent not released from the lien of this Indenture pursuant hereto.

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Interest Reserve Account

After payment of the organizational and structuring fees, the fee of the Collateral Manager and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Manager and the Initial Purchaser) and the expenses of offering the Offered Securities, on the Closing Date the Collateral Manager may, in its sole discretion, designate a specified amount from the proceeds of the offering of the Offered Securities to be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the "Interest Reserve Account"). Currently, such amount is expected to be zero. All funds on deposit in the Interest Reserve Account will be invested in Eligible Investments. 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: at least one Business Day prior to the first Distribution Date, the Trustee will transfer all amounts 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 the Class A-1 Notes if, and only to the extent, necessary for such Noteholders to receive the accrued and unpaid interest due and payable in respect of such Notes on such first Distribution Date pursuant to clause (5) of the Interest Proceeds Waterfall 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.

Synthetic Security Counterparty Accounts

For each Defeased Synthetic Security, the Trustee will establish a single, segregated account (each such account, a "Synthetic Security Counterparty Account") that will be held in the name of the Trustee in trust for the benefit of the related Synthetic Security Counterparty and over which the Trustee will have exclusive control and the sole right of withdrawal in accordance with the applicable Synthetic Security and the Indenture. The Trustee and the Issuer shall, in connection with the establishment of a Synthetic Security Counterparty Account, enter into a separate account control and security agreement with the Synthetic Security Counterparty setting forth the rights and obligations of the Issuer, the Trustee and the Synthetic Security Counterparty with respect to such account and pursuant to which the Issuer shall grant the Trustee a first priority security interest in such Synthetic Security Counterparty Account for the benefit of the Synthetic Security Counterparty; *provided* that no security interest in favor of a Synthetic Security Counterparty in such Synthetic Security Counterparty Account shall include any income from investments of funds in such Synthetic Security Counterparty Account to which the Issuer is entitled pursuant to the terms of such Synthetic Security. As directed by issuer order executed by the Collateral Manager, the Trustee will withdraw from the Uninvested Proceeds Account and deposit into each Synthetic Security Counterparty Account the amount required to secure the obligations of the Issuer in accordance with the terms of the related Defeased Synthetic Security to the extent that the relevant amount has not been deposited in the Synthetic Security Counterparty Account from the net proceeds received by the Issuer from the issuance of the Notes and the Preference Shares or Borrowings under the Class A-1 Notes, which amount shall be at least equal to the amount referred to in paragraph (a) of the definition of Defeased Synthetic Security. The Collateral Manager will direct any such deposit during the Ramp-Up Period and only to the extent that monies are available for the purchase of Collateral Debt Securities from Uninvested Proceeds and Sale Proceeds in accordance with the terms of the Indenture. Notwithstanding the foregoing, after the Ramp-Up Period ends, the Issuer may acquire Collateral Debt Securities that are the subjects of a commitments entered into by the Issuer prior to the end of the Ramp-Up Period.

In accordance with the terms of the applicable Defeased Synthetic Security and related account control and security agreement, amounts standing to the credit of a Synthetic Security Counterparty Account shall be invested in securities. Amounts and property credited to a Synthetic Security Counterparty Account shall be withdrawn by the Trustee and applied to the payment of any amounts

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payable by, or to the delivery of securities deliverable by, the Issuer to the related Synthetic Security Counterparty in accordance with the terms of such Defeased Synthetic Security. To the extent that the Issuer is entitled to receive interest on securities credited to a Synthetic Security Counterparty Account, the Collateral Manager shall, by issuer order, direct the Trustee to deposit such amounts in the Interest Collection Account. After payment of all amounts owing by the Issuer to a Synthetic Security Counterparty in accordance with the terms of the related Defeased Synthetic Security or termination of a Synthetic Security following an event of default thereunder as to which the Synthetic Security Counterparty is the sole defaulting party (in which event no termination payment shall be due from the Issuer to such Synthetic Security Counterparty), the Collateral Manager, by issuer order, shall direct the Trustee to withdraw all funds and other property credited to the Synthetic Security Counterparty Account related to such Defeased Synthetic Security and credit such funds and other property to (i) the Principal Collection Account (in the case of cash and Eligible Investments), for application as Principal Proceeds (other than any investment income thereon, which will be Interest Proceeds) in accordance with the terms of the Indenture, and (ii) the Custodial Account (in the case of Collateral Debt Securities and other financial assets which shall not be liquidated except in accordance with "Security for the Notes—Dispositions of Collateral Debt Securities").

Except for interest on securities standing to the credit of a Synthetic Security Counterparty Account payable to the Issuer as described pursuant to the preceding paragraph, funds and other property standing to the credit of a Synthetic Security Counterparty Account shall not be considered to be an asset of the Issuer for purposes of the Collateral Quality Tests; however, the Defeased Synthetic Security that relates to such Synthetic Security Counterparty Account shall be considered an asset of the Issuer for such purposes.

Each Synthetic Security Counterparty Account shall remain at all times with a financial institution organized and doing business under the laws of the United States or any State thereof, authorized under such laws to exercise corporate trust powers and having a long-term debt rating of at least "Baa1" by Moody's (and, if rated "Baa1," not be on watch for possible downgrade by Moody's) and at least "BBB+" by Standard & Poor's and Fitch and a combined capital and surplus in excess of U.S.$250,000,000.

A modification to the terms of the Indenture relating to a Synthetic Security Counterparty Account will require the consent of any Synthetic Security Counterparty materially and adversely affected by such modification.

Synthetic Security Issuer Accounts

If the terms of any Synthetic Security require the Synthetic Security Counterparty to secure its obligations with respect to such Synthetic Security, the Trustee shall cause to be established a segregated, non-interest bearing Securities Account in respect of such Synthetic Security (each such account, a "Synthetic Security Issuer Account"), which shall be held in the name of the Trustee as Entitlement Holder in trust for the benefit of the Secured Parties. Upon issuer order, the Trustee, the Issuer and the Custodian shall enter into an account control agreement with respect to such account in a form substantially similar to the Account Control Agreement. The Trustee shall credit to any such Synthetic Security Issuer Account all funds and other property received from the applicable Synthetic Security Counterparty to secure the obligations of such Synthetic Security Counterparty in accordance with the terms of such Synthetic Security.

Amounts credited to a Synthetic Security Issuer Account shall be invested as directed by an issuer order executed by the Collateral Manager in writing and in accordance with the terms of the applicable Synthetic Security. Income received on amounts credited to such Synthetic Security Issuer Account shall

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be withdrawn from such account and paid to the related Synthetic Security Counterparty in accordance with the terms of the applicable Synthetic Security.

Funds and other property standing to the credit of any Synthetic Security Issuer Account shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests; however, the Synthetic Security that relates to such Synthetic Security Issuer Account shall be considered an asset of the Issuer for such purposes.

In accordance with the terms of the applicable Synthetic Security, funds and other property standing to the credit of the related Synthetic Security Issuer Account shall, as directed by the Collateral Manager by issuer order, be withdrawn by the Trustee and applied to the payment of any amount owing by the related Synthetic Security Counterparty to the Issuer. After payment of all amounts owed by the Synthetic Security Counterparty to the Issuer in accordance with the terms of the related Synthetic Security, all funds and other property standing to the credit of the related Synthetic Security Issuer Account shall be withdrawn from such Synthetic Security Issuer Account and paid or transferred to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security.

Each Synthetic Security Issuer Account shall remain at all times with a financial institution organized and doing business under the laws of the United States or any State thereof, authorized under such laws to exercise corporate trust powers and having a long-term debt rating of at least "Baa1" by Moody's (and, if rated "Baa1," not be on watch for possible downgrade by Moody's) and at least "BBB+" by Standard & Poor's and Fitch and a combined capital and surplus in excess of U.S.$250,000,000.

A modification of the terms of the Indenture relating to a Synthetic Security Issuer Account will require the consent of any Synthetic Security Counterparty materially and adversely affected thereby.

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THE COLLATERAL MANAGEMENT AGREEMENT

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

General

The Collateral Manager will perform certain investment management functions, including directing and supervising the investment by the Issuer in Collateral Debt Securities and Eligible Investments, and will perform certain administrative functions on behalf of the Issuer in accordance with the applicable provisions of the Collateral Management Agreement. The Collateral Manager will be authorized to supervise and direct the investment and disposition of Collateral Debt Securities, Equity Securities and Eligible Investments, with full authority and at its discretion (without specific authorization from the Issuer), on the Issuer's behalf and at the Issuer's risk.

Compensation

As compensation for rendering its services under the Collateral Management Agreement, the Collateral Manager will be entitled to receive fees, payable quarterly (except that in the case of the first Distribution Date, the fee will cover the period from and including the Closing Date to but excluding the first Distribution Date) in arrears on each Distribution Date in accordance with the Priority of Payments, in an amount equal to the Senior Management Fee and the Subordinate Management Fee (together with the Senior Management Fee, the "Management Fees") of 0.08% *per annum* and 0.04% *per annum* respectively, of the Average Quarterly Asset Amount for each Distribution Date. The Management Fees will be paid in accordance with the Priority of Payments. The Senior Management Fee and Subordinated Management Fee for any Distribution Date will be calculated on the basis of a 360-day year consisting of twelve 30-day months. See "Description of the Notes—Priority of Payments."

The Management Fees will accrue from the Closing Date. To the extent not paid on any Distribution Date when due, (i) the Senior Management Fee will be deferred and will be payable on subsequent Distribution Dates in accordance with the Priority of Payments and (ii) the Subordinate Management Fee will be deferred and will be payable on subsequent Distribution Dates in accordance with the Priority of Payments. The Collateral Manager will have the right to elect to defer payment of its Senior Management Fee and/or its Subordinate Management Fee on any Distribution Date. Any accrued but unpaid Senior Management Fees that are deferred due to the operation of the Priority of Payments will not accrue interest. Any accrued but unpaid Subordinate Management Fees that are deferred due to the operation of the Priority of Payments will not accrue interest. If the Collateral Manager elects to defer payment of any Management Fee which otherwise would have been paid in accordance with the Priority of Payments, such deferred Management Fee ("Deferred Senior Management Fee" or "Deferred Subordinate Management Fee," as applicable) will accrue interest for each Interest Period at a *per annum* rate of LIBOR (such accrued interest, "Deferred Senior Management Fee Interest" and "Deferred Subordinate Management Fee Interest"). In addition, the Collateral Manager will be reimbursed for certain other amounts owed to it under the Collateral Management Agreement pursuant to the Priority of Payments.

In addition, the Collateral Manager will receive from the Issuer a fee of U.S.$1,150,000 on the Closing Date for collateral management services performed prior to the Closing Date.

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Removal

If the Collateral Management Agreement is terminated for any reason, or the entity then serving as Collateral Manager resigns or is removed, the Management Fees owing to such entity will be prorated for any partial periods between Distribution Dates, and such prorated amount shall be due and payable on the first Distribution Date following the date of such termination, subject to the Priority of Payments. No Management Fee payable to a successor Collateral Manager from payments on the Collateral may be greater than the Management Fee payable to the Collateral Manager (as of the Closing Date) without the prior written consent of a Majority-in-Interest of Preference Shareholders and, in the case of an increase in the Senior Management Fee, a Majority of the Noteholders (voting as a single class).

The Collateral Manager may resign, upon 90 days' (or such shorter period as is acceptable to the Issuer) written notice to the Issuer, the Trustee and the Rating Agencies. If the Collateral Manager resigns, the Issuer agrees to use its commercially reasonable efforts to appoint a successor Collateral Manager, and the effectiveness of such resignation will be conditioned upon the appointment of such successor in the manner specified below.

The Collateral Manager may not be removed without cause.

The Collateral Manager may be removed for cause by the Issuer or the Trustee, at the direction of a Special-Majority-in-Interest of Preference Shareholders or by the holders of at least 66⅔% of the Aggregate Outstanding Amount of the Notes of the Controlling Class (excluding any Collateral Manager Securities), upon 10 days' prior written notice to the Collateral Manager.

For purposes of determining "cause" with respect to any such termination of the Collateral Management Agreement, such term shall mean the occurrence and continuation of any one of the following events:

(1) the Collateral Manager willfully violates, or takes any action that it knows breaches, any provision of the Collateral Management Agreement or the Indenture applicable to it;

(2) the Collateral Manager breaches in any material respect any provision of the Collateral Management Agreement or any terms of the Indenture applicable to it or any representation, certificate or other statement made or given in writing by the Collateral Manager (or any of its directors or officers) pursuant to the Collateral Management Agreement or the Indenture shall prove to have been incorrect in any material respect when made or given, which breach or materially incorrect representation, certificate or statement (i) has a material adverse effect on the Noteholders of any Class of Notes or any Preference Shareholders and (ii) within 60 days of its becoming aware (or receiving notice from the Trustee) of such breach, or such materially incorrect representation, certificate or statement, the Collateral Manager fails to cure such breach, or to take such action so that the facts (after giving effect to such actions) conform in all material respects to such representation, certificate or statement;

(3) the Collateral Manager is wound up or dissolved or there is appointed over it or a substantial portion of its assets in connection with any winding up, liquidation, reorganization or other relief under any bankruptcy, insolvency, receivership or similar law, a receiver, administrator, administrative receiver, trustee or similar officer; or the Collateral Manager (i) ceases to be able to, or admits in writing its inability to, pay its debts as they become due and payable, or makes a general assignment for the benefit of, or enters into any composition or arrangement with, its creditors generally; (ii) applies for or consents (by admission of material allegations of a petition or otherwise) to the appointment of a receiver, trustee, assignee, custodian, liquidator or sequestrator (or other similar official) of the Collateral Manager or of any substantial part of its properties or assets in connection with any

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winding up, liquidation, reorganization or other relief under any bankruptcy, insolvency, receivership or similar law, or authorizes such an application or consent, or proceedings seeking such appointment are commenced without such authorization, consent or application against the Collateral Manager and continue undismissed for 60 consecutive days; (iii) authorizes or files a voluntary petition in bankruptcy, or applies for or consents (by admission of material allegations of a petition or otherwise) to the application of any bankruptcy, reorganization, arrangement, readjustment of debt, insolvency or dissolution, or authorizes such application or consent, or proceedings to such end are instituted against the Collateral Manager without such authorization, application or consent and are approved as properly instituted and remain undismissed for 60 consecutive days or result in adjudication of bankruptcy or insolvency; or (iv) permits or suffers all or any substantial part of its properties or assets to be sequestered or attached by court order and the order remains undismissed for 60 consecutive days;

(4) the occurrence of an Event of Default under the Indenture which breach substantially results from any breach or default by the Collateral Manager of its duties under the Collateral Management Agreement or under the Indenture, which breach or default is not cured within any applicable cure period; or

(5) (i) the Collateral Manager being indicted for criminal fraud or other criminal activity in the performance of its obligations under the Collateral Management Agreement or a final judicial determination of civil fraud having been made with respect to any act of the Collateral Manager in the performance of such obligations or (ii) the Collateral Manager or any of its executive officers primarily responsible for administration of the Collateral Debt Securities (in the performance of his or her investment management duties) being convicted of a criminal offense related to its primary business.

The Collateral Manager shall promptly notify the Issuer, the Trustee, the Preference Share Paying Agent and the Rating Agencies if, to its actual knowledge, a "cause" event, or an event which with the giving of notice or the lapse of time (or both) would become "cause," occurs.

Any resignation or removal of the Collateral Manager, or termination of this Agreement, will be effective only upon (i) the appointment by the Issuer at the direction of a Majority-in-Interest of Preference Shareholders (including Preference Shares that are Collateral Manager Securities) of an institution as successor Collateral Manager that is not an Affiliate of the Collateral Manager, provided, that the holders of a majority of the Aggregate Outstanding Amount of each Class of Notes do not disapprove such institution within 30 days of notice of such appointment, and such institution (1) has demonstrated an ability to professionally and competently perform duties similar to those imposed upon the Collateral Manager under the Collateral Management Agreement, (2) is legally qualified and has the capacity to act as Collateral Manager under the Collateral Management Agreement as successor to the Collateral Manager, (3) has agreed in writing to assume all of the responsibilities, duties and obligations of the Collateral Manager under the Collateral Management Agreement and under the applicable terms of the Indenture and (4) shall not cause the Issuer, the Co-Issuer or the Collateral to be required to register as an investment company under the Investment Company Act (clauses (1) through (4), the "Replacement Manager Conditions"); and (ii) satisfaction of the Rating Condition with respect to such appointment.

The Issuer, the Trustee and the successor Collateral Manager shall take such action (or cause the outgoing Collateral Manager to take such action) consistent with the Collateral Management Agreement and the terms of the Indenture applicable to the Collateral Manager as shall be necessary to effectuate any such succession. If the Collateral Manager shall resign or be removed but a successor Collateral Manager shall not have assumed all of the Collateral Manager's duties and obligations under the Collateral Management Agreement within 60 days after such resignation or removal, then the holders of a majority of the Aggregate Outstanding Amount of the Notes of the Controlling Class will have the right to appoint a successor Collateral Manager.

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In the event that the Collateral Manager is terminated and neither the Issuer nor the Trustee shall have appointed a successor on or prior to the date that is 90 days following the date of the termination notice, the Collateral Manager will be entitled to appoint a successor and will so appoint a successor within 90 days thereafter, subject to such successor's satisfaction of the Replacement Manager Conditions and the approval of such successor by holders of a majority of the Aggregate Outstanding Amount of each Class of Notes and a Majority-in-Interest of Preference Shareholders. In lieu thereof, or, if the successor Collateral Manager appointed by the resigning or removed Collateral Manager is disapproved, the resigning or removed Collateral Manager, the Issuer or the holders of at least 25% of the Preference Shares or at least 25% of the Aggregate Outstanding Amount of any Class of Notes may petition any court of competent jurisdiction for the appointment of a successor Collateral Manager, which appointment shall not require the consent of, nor be subject to the disapproval of, the Issuer or any holder of Notes or Preference Shares.

Any Collateral Manager Securities will have no voting rights with respect to any vote (i) in connection with the removal of the Collateral Manager or (ii) increasing the rights or decreasing the obligations of the Collateral Manager, and will be deemed not to be outstanding in connection with any such vote; *provided*, *however*, that any such Collateral Manager Securities will have voting rights and will be deemed outstanding with respect to all other matters as to which holders of Offered Securities are entitled to vote.

The Collateral Management Agreement may not be delegated by the Collateral Manager, in whole or in part, without (i) the prior written consent of the Issuer, (ii) the prior written consent of or affirmative vote by a Majority-in-Interest of Preference Shareholders (excluding any Collateral Manager Securities) and (iii) satisfaction of the Rating Condition with respect to such delegation and, notwithstanding any such consent, no delegation of duties by the Collateral Manager shall relieve it from any liability hereunder; *provided*, *however*, that the Collateral Manager may delegate any or all of its obligations under the Collateral Management Agreement to an Affiliate of the Collateral Manager without obtaining the consents specified in the preceding clauses (i), (ii) and (iii), if such Affiliate meets the Replacement Manager Conditions, and if immediately after the delegation, such Affiliate employs principal personnel performing the duties under the Collateral Management Agreement who are the same individuals who would have performed such duties had the delegation not occurred.

The Collateral Management Agreement may not be assigned by the Issuer without the prior written consent of the Collateral Manager and the prior written consent of or affirmative vote by a majority in Aggregate Outstanding Amount of the Controlling Class and a Special-Majority-in-Interest of Preference Shareholders, except in the case of assignment by the Issuer (i) to an entity which is a successor to the Issuer permitted under the Indenture, in which case such successor organization shall be bound under the Collateral Management Agreement and by the terms of such assignment in the same manner as the Issuer is bound under the Indenture or (ii) to the Trustee as contemplated by the Indenture. In the event of any assignment by the Issuer, the Issuer shall use its best efforts to cause its successor to execute and deliver to the Collateral Manager such documents as the Collateral Manager shall consider reasonably necessary to effect fully such assignment.

The Collateral Management Agreement may not be amended, modified or waived without, in the case of any amendment to which consent of a Hedge Counterparty is required under any Hedge Agreement, the consent of such Hedge Counterparty and without satisfaction of the Rating Condition with respect to Standard & Poor's.

The Collateral Manager, its Affiliates and their respective members, principals, partners, managers, directors, officers, stockholders, partners, agents and employees will not be liable to the Co-Issuers, the Trustee, the Collateral Administrator, the Preference Share Paying Agent, the holders of the

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Offered Securities or any other person for any losses, claims, damages, demands, charges, judgments, assessments, costs or other liabilities incurred by the Co-Issuers, the Trustee, the Preference Share Paying Agent, the holders of the Offered Securities or any other Person that arise out of or in connection with the performance by the Collateral Manager of its duties under the Collateral Management Agreement or the Indenture, or for any decrease in the value of the Collateral; *provided* that the Collateral Manager shall be subject to liability: (i) by reason of acts or omissions of the Collateral Manager constituting bad faith, willful misconduct or gross negligence in the performance, or reckless disregard, of the obligations of the Collateral Manager under the Collateral Management Agreement and under the terms of the Indenture applicable to the Collateral Manager; or (ii) with respect to any representation or warranty made by the Collateral Manager regarding the information concerning the Collateral Manager provided by it for the inclusion in this Offering Circular which information is contained solely under the section entitled "Collateral Manager," such information containing any untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading (the occurrence of events described in either of clause (i) or (ii), a "Collateral Manager Breach"); *provided* that in no event shall the Collateral Manager or any of its Affiliates be liable for consequential, special, exemplary or punitive damages. Any stated limitations on liability shall not relieve the Collateral Manager from any responsibility it has under any state or Federal statutes.

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 and/or the holders of the Notes 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—Conflicts of Interest Involving the Collateral Manager."

Standard of Care

The Collateral Manager in performing its obligations under the Collateral Management Agreement will act in good faith and exercise reasonable care (i) using a degree of skill and attention no less than that which the Collateral Manager exercises with respect to comparable assets that it manages for itself and (ii) without limiting the foregoing, in a commercially reasonable manner consistent with its understanding of accepted practices and procedures applied by reasonable and prudent institutional managers of national standing in connection with the management of assets of the nature and the character of the Collateral Debt Securities and Eligible Investments.

Indemnification

The Issuer will agree to indemnify and hold harmless the Collateral Manager and its Affiliates (each, an "Indemnified Party") from and against any and all losses, claims, damages, judgments, assessments, costs or other liabilities, and will reimburse each such Indemnified Party for all reasonable fees and expenses (including reasonable fees and expenses of counsel) as such fees and expenses are incurred in investigating, preparing, pursuing or defending any claim, action, proceeding or investigation with respect to any pending or threatened litigation, caused by, or arising out of or in connection with, the issuance of the Notes, the transactions contemplated by this Offering Circular, the Indenture or the Collateral Management Agreement, and/or any action taken by, or any failure to act by, the Collateral Manager or any of its Affiliates; *provided* that the Collateral Manager and its Affiliates will not be indemnified for any such losses, claims, damages, judgments, assessments, costs or other liabilities or any fees or expenses to the extent that they are incurred as a result of any acts or omissions constituting a Collateral Manager Breach. Any such indemnification by the Issuer will be paid subject to, and in accordance with, the Priority of Payments.

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The Collateral Manager will agree to indemnify and hold harmless the Issuer from and against any and all losses, claims, damages, demands, charges, judgments, assessments, costs or other liabilities, and will reimburse the Issuer from and against any and all reasonable fees and expenses (including reasonable fees and expenses of counsel) incurred in investigating, preparing, pursuing or defending any claim, action, proceeding or investigation with regard to any pending or threatened litigation, to the extent caused by, or arising out of (i) any acts or omissions of the Collateral Manager or any of its Affiliates constituting bad faith, willful misconduct or gross negligence in the performance, or reckless disregard, of the obligations of the Collateral Manager under the Collateral Management Agreement and under the terms of the Indenture applicable to the Collateral Manager or (ii) with respect to any representation or warranty made by the Collateral Manager regarding the information concerning the Collateral Manager provided by it for inclusion in this Offering Circular, which information is contained solely under the section entitled "Collateral Manager" herein, except for liability to which the Issuer would be subject by reason of bad faith, willful misconduct, gross negligence or reckless disregard of the obligations of the Issuer under the Collateral Management Agreement or under the Indenture or the Preference Share Paying Agency Agreement. The Collateral Manager shall not be liable for consequential, special, exemplary or punitive damages, and shall not be responsible for any action or omission of the Issuer, including (without limitation) in following or declining to follow any advice, recommendation or direction of the Collateral Manager, which advice, recommendation or direction does not constitute a Collateral Manager Breach and is not inconsistent with the Collateral Manager's obligations under the Collateral Management Agreement. For the avoidance of doubt, the Initial Purchaser will be indemnified by the Issuer pursuant to the Purchase Agreement.

Investment Guidelines

Pursuant to the Collateral Management Agreement, the Collateral Manager must comply with certain investment guidelines in connection with the acquisition of the Collateral Debt Securities. In complying with these investment guidelines, the Issuer (or the Collateral Manager on behalf of the Issuer) may rely on (i) advice from Schulte Roth & Zabel LLP or an opinion of other nationally recognized tax counsel or (ii) offering documents with respect to such security which include or refer to an opinion of nationally recognized tax counsel (*provided*, that in the case of this subclause (ii), there has been no change in the relevant terms of such obligation or change in relevant law prior to the date of the acquisition thereof by the Issuer), in either case to the effect that the Issuer will not (i) be treated as engaged in a U.S. trade or business for U.S. Federal income tax purposes as a result of the acquisition (including the manner of acquisition), ownership, enforcement and disposition of such Collateral Debt Security or (ii) upon the disposition of such Collateral Debt Security, be subject to U.S. Federal income or withholding tax under Section 897 or Section 1445 of the Code and the Treasury Regulations promulgated thereunder on any gain realized on such disposition.

Trademark

Strategeos and Kleros are trademarks of Strategos which it has licensed to the Issuer to use solely for the limited purposes and limited duration set forth in the Collateral Management Agreement,

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COLLATERAL MANAGER

The information appearing below under the subheadings "Strategos Capital Management, LLC" and "Key Personnel" have been prepared by the Collateral Manager and has not been independently verified by the Co-Issuers, the Initial Purchaser, the Trustee or any other person. Accordingly, the Collateral Manager assumes the responsibility for the accuracy, completeness or applicability of such information appearing under such subheading.

Strategos Capital Management, LLC

General

Strategos Capital Management, LLC (the "Collateral Manager") is a Delaware limited liability company formed on July 7, 2004. The Collateral Manager is an Affiliate of Cohen Brothers LLC, which is a holding company for Cohen Bros. & Company, LLC ("Cohen Bros"), a broker-dealer that focuses on the financial services sector and owner of three other collateral managers of CDOs collateralized by trust preferred securities. The Collateral Manager has an office at 1818 Market Street, Philadelphia, PA 19103 and is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. The Collateral Manager is an Affiliate of Cohen Bros. Financial Management, LLC, a registered investment adviser regulated by the SEC, which is the collateral manager for ALESCO Preferred Funding I, Ltd., ALESCO Preferred Funding II, Ltd., ALESCO Preferred Funding III, Ltd., ALESCO Preferred Funding IV, Ltd., ALESCO Preferred Funding V, Ltd., ALESCO Preferred Funding VI, Ltd. and Alesco Preferred Funding VII, Ltd. (the "Alesco CDOs"). Dekania Capital Management, LLC, a registered investment adviser regulated by the SEC is another Affiliate of the Collateral Manager, and is collateral manager for Dekania CDO I, Ltd., and Dekania CDO II, Ltd. (collectively "Dekania CDOs"). The Collateral Manager is also an Affiliate of Taberna Capital Management, LLC, the collateral manager for Taberna Preferred Funding I, Ltd., a CDO collateralized by REIT and real estate operating company trust preferred securities. The Alesco CDOs are comprised of trust preferred securities issued by bank holding companies and insurance companies. The Dekania CDOs are comprised of securities issued by insurance companies and include trust preferred securities, surplus notes, subordinated notes, and senior notes. Taberna Preferred Funding I, LLC is comprised of trust preferred securities and senior debt securities of REITs and real estate operating companies, as well as commercial mortgage backed securities.

Cohen Bros. is a broker-dealer that draws upon the experience of its professionals in the financial services and real estate sector to provide specialized research and investment opportunities to institutions and sophisticated individuals. Cohen Bros. research department reports on the stocks of a diverse pool of financial institutions throughout the United States. Cohen Bros. has published the Encyclopedia of Bank Trust Preferred Securities, the Insurance Trust Preferred Securities and Surplus Notes Encyclopedia and the REIT Preferred Encyclopedia. From time to time, Cohen Bros. has acted and will continue to act as broker for the Collateral Manager to acquire the Collateral Debt Securities for the Issuer.

In order for the Collateral Manager to prepare the reports required by the Collateral Management Agreement, the Collateral Manager will be required to analyze each Collateral Debt Security on a quarterly basis.

The Collateral Manager will use the services of the individuals described below.

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Key Personnel

Investment Committee

Daniel G. Cohen. Mr. Cohen has been Chairman of the Board of Directors of TheBancorp, Inc. (a bank holding company) since 2000, and served as Chief Executive Officer for TheBancorp, Inc. from 1999 to 2000. Since 2001, he has also served as Chairman, Chief Executive Officer and President of Cohen Bros. Mr. Cohen has served on the Board of Directors of TRM Corporation (NASDAQ: "TRMM") since 2000, and has been its Chairman since 2003. Mr. Cohen is also the Chief Executive Officer of Taberna Realty Finance Trust ("TRFT") From 1995 to 2000, Mr. Cohen served as an officer of Resource America (NASDAQ: "REXI"), serving as its Chief Operating Officer from 1988 to 2000. From 1997 to 1999, Mr. Cohen was a director of Jefferson Bank of Pennsylvania, a commercial bank acquired by Hudson United Bancorp in 1999.

James J. McEntee, III. Mr. McEntee is the Chief Operating Officer of Cohen Bros. and serves as Vice-Chairman for Strategos Capital Management, LLC, and is Vice Chairman of the Board of Trustees of TRFT. He was previously the co-founding and co-managing Partner of Harron Capital, LP, a $100 million private equity fund. In addition, he was a Partner and Chairman of the Business Department of the law firm of Lamb, Windle & McErlane, with extensive experience representing the firm's banking clients. He is also a director of The Bancorp, Inc. a bank holding company.

Alex P. Cigolle, CFA. Mr. Cigolle serves as the Chief Investment Officer of Strategos Capital Management, LLC. Mr. Cigolle is a Vice President of Cohen Bros. From 2000 to 2004, Mr. Cigolle served as Vice President at Delaware Investments where he directed trading and structuring of collateralized debt obligations (CDOs). Prior to that Mr. Cigolle was employed with Banc of America Securities from 1998 to 2000 where he was a structurer in the Structured Credit Products Group. In 1998, Mr. Cigolle earned a bachelor's degree in economics from the Massachusetts Institute of Technology. Mr. Cigolle also owns a minority of the economic interests in the Collateral Manager.

David Nathaniel, CPA (Isr.). David Nathaniel joined Cohen Brothers in January 2005. Mr. Nathaniel serves as Chief Operating Officer of the Collateral Manager. Prior to joining Cohen Bros., from 2002 to 2005, Mr. Nathaniel served as Chief Investment Officer of Mivtachim Pension Funds, the largest pension fund in Israel, with assets under management of over $3 billion. From 2000 to 2001, Mr. Nathaniel managed a $300 million portfolio of real estate assets for Gmul Investments Ltd. From 1999-2001, Mr. Nathaniel was the managing partner of a private equity fund for Tamir Fishman & Co. (the Israeli affiliate of RBC Capital markets). From 1997 to 1999, Mr. Nathaniel was the head of investment banking for Nesuah Zannex & Co. – and from 1993 to 1997 was investment manager for Dovrat Shrem & Co – Private Equity Funds. Mr. Nathaniel received a BA in Economics from Hebrew University in 1990, a CPA (Isr.) in 1991 and an MBA from Tel Aviv University in 1995.

Investment Professionals

Joseph Messineo. Mr. Messineo is Managing Director of Trading for Strategos Capital Management, LLC. Since 2002 Mr. Messineo joined Cohen Bros. in 2002, where he is a Managing Director. From 1999 to 2002 Mr. Messineo was a sales trader of mortgage backed securities at PaineWebber. From 1996 to 1999 he traded natural gas with U.S. and foreign energy companies for Power Merchants Group. He graduated from Drexel University in Philadelphia, PA with a double major in finance and marketing in 1996.

Nadia Khayat. Ms. Khayat is responsible for analytics and surveillance at Strategos Capital Management, LLC. Ms. Khayat holds an undergraduate degree in Management and Economics from the

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University of Damascus and a Masters of Business Administration degree from Villanova University. Before coming to the States she worked for four years with a regional computer peripheral distributor in the capacity of a general Manager Assistant.

Matthew C. Nannen. Mr. Nannen has been Director of Surveillance and ABS Credit Analyst at Strategos Capital Management, LLC since April 2005. From 1998 to 2005, he served as Assistant Vice President at Delaware Investments. Prior to that, Mr. Nannen was employed with Ernst & Young, LLP as Audit Manager from 1992 to 1998. Mr. Nannen earned a bachelor's degree in accounting from The Pennsylvania State University in 1992, a CPA (PA) in 1995 and is a Level II CFA Candidate.

Cohen Bros. Resources

Raphael Licht. Raphael Licht is a Vice President and Chief Legal Officer of Cohen Brothers LLC, the owner of Cohen Bros. and chief legal officer of TRFT. From June 1996 to October 1997, and again from January 2002 to 2003, Mr. Licht practiced corporate, securities and real estate law with the law firm of Ledgewood Law Firm, P.C. From 1997 to 2000, Mr. Licht was an associate with the law firm of Morgan, Lewis & Bockius, L.P., where his practice specialized in structured finance and securitization. From August 2000, to January 2002, Mr. Licht was general counsel of iATMglobel.net Corporation, a financial services consulting and software company.

Kenneth R. Smith. Mr. Smith has managed the operations and compliance functions for Cohen Bros since its founding in 1999. Prior to joining Cohen Bros., he worked in various management roles with JP Morgan and the Vanguard Group of Investment Companies. Mr. Smith also served in the United States Air Force for six years.

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INCOME TAX CONSIDERATIONS

In General

The following summary describes the principal U.S. Federal income tax and Cayman Islands tax consequences of the purchase at initial issuance of the Offered Securities and the ownership and disposition of the Offered Securities. For purposes of this section, with respect to each Class of Notes, the first price at which a substantial amount of Notes of such Class are sold to investors is referred to herein as the "Issue Price". The summary does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase the Offered Securities. In particular, the summary does not address special tax considerations that may apply to certain types of taxpayers, including securities dealers, securities traders who account for their securities on a mark-to-market basis for tax purposes, banks, tax-exempt investors, insurance companies, subsequent purchasers of Offered Securities, persons that own (directly or indirectly) equity interests in holders of Offered Securities and holders that purchase the Notes for prices other than the respective Issue Prices of the Notes. In addition, this summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the U.S. Federal government and the Cayman Islands. In general, this summary assumes that a holder acquires Offered Securities at original issuance and holds such Offered Securities as a capital asset and not as part of a hedge, a straddle, or a conversion transaction within the meaning of Section 1258 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), a constructive sale transaction within the meaning of Section 1259 of the Code or an integrated transaction. This summary is based on United States and Cayman Islands tax laws, regulations, rulings and decisions in effect or available on the date of this Offering Circular. All of the foregoing are subject to change, which change may apply retroactively and could affect the continued validity of this summary.

This summary is included herein for general information only and there can be no assurance that the tax consequences of an investment in the Offered Securities will be favorable or that such consequences will be as described herein.

As used in this section, the term "U.S. holder" means a beneficial owner of an Offered Security who is (i) a citizen or resident of the United States, (ii) an entity taxable as a corporation for U.S. Federal income tax purposes, which is created or organized in or under the laws of the United States, any state therein or the District of Columbia, (iii) an estate (other than a foreign estate defined in Section 7701(a)(31)(A) of the Code) or (iv) a trust if a court within the United States is able to exercise primary supervision over such trust's administration and one or more U.S. persons have the authority to control all substantial decisions of such trust and certain other trusts that were in existence on August 20, 1996 and that elect to continue to be treated as U.S. persons. The term "non-U.S. holder" means a beneficial owner of a Security who is not a U.S. holder.

U.S. persons and non-U.S. persons who own an interest in a holder which is treated as a pass-through entity under the Code will generally receive the same tax treatment, with respect to the material tax consequences of their indirect ownership of the Offered Securities, as is described herein for direct U.S. holders and non-U.S. holders, respectively. Nonetheless, such persons should consult their tax advisors with respect to their particular circumstances, including for issues related to tax elections and information reporting requirements.

ACCORDINGLY, PROSPECTIVE PURCHASERS OF THE OFFERED SECURITIES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE U.S. FEDERAL INCOME TAX AND CAYMAN ISLANDS TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND

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DISPOSITION OF THE OFFERED SECURITIES AND THE POSSIBLE APPLICATION OF STATE, LOCAL, FOREIGN OR OTHER TAX LAWS.

U.S. Federal Tax Considerations

For U.S. Federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the issuer of the Notes.

Tax Treatment of the Issuer

Schulte Roth & Zabel LLP, special U.S. Federal income tax counsel to the Issuer, will provide the Issuer with an opinion of counsel to the effect that, although there is no direct authority, the Issuer will not be engaged in a trade or business within the United States for Federal income tax purposes, and accordingly, the Issuer will not be subject to Federal income tax in the United States on its net income or to the branch profits tax. This opinion will be based on certain assumptions regarding the Issuer, including the Issuer's and the Collateral Manager's compliance with the Indenture and the Collateral Management Agreement. Prospective investors should be aware that an opinion of counsel is not binding on the U.S. Internal Revenue Service ("IRS") or the courts, and that no ruling will be sought from the IRS regarding the U.S. Federal income tax treatment of the Issuer. Accordingly, there can be no assurance that the IRS or a court will agree with the opinion of Schulte Roth & Zabel LLP. The Issuer may not purchase, but may acquire pursuant to a distressed exchange or other debt restructuring by an issuer of a Defaulted Security, an Equity Security the holding of which could cause the Issuer to be engaged in a U.S. trade or business for the period from the acquisition until such security is sold as required pursuant to the Indenture. It is also possible that the IRS could treat the Issuer as engaged in a trade or business in the United States by reason of the Issuer's selling credit protection under a Synthetic Security if the Issuer were deemed to be guaranteeing obligations from within the United States or insuring risks from within the United States. If the Issuer should be treated as engaged in a trade or business in the United States, the Issuer would be potentially subject to substantial U.S. Federal income taxes. The imposition of such taxes would materially affect the Issuer's financial ability to make payments of principal of and interest on the Notes or payments on the Preference Shares.

Although the Issuer is generally not intended to be subject to U.S. Federal income tax on its net income, certain income derived by the Issuer may be subject to withholding taxes imposed by the United States or other countries. It is not expected that the Issuer will derive material amounts of income that would be subject to United States withholding taxes.

Tax Treatment of U.S. Holders of the Notes

Status of the Notes. Upon the issuance of the Notes, Schulte Roth & Zabel LLP will deliver an opinion that, although there is no direct authority, the Class A-1 Notes, the Class A-2 Notes and the Class B Notes will be characterized as debt for U.S. Federal income tax purposes, and the Class C Notes and the Class D Notes should be characterized as debt for U.S. Federal income tax purposes. Such opinion will assume compliance with the Indenture and other related documents. Investors should be aware that such opinion of counsel is not binding on the IRS or the courts. The Issuer will agree and, by their purchase of the Notes, holders and beneficial owners of the Notes will be deemed to have agreed, to treat the Notes as debt for U.S. Federal income tax purposes; *provided, however*, that the holders of Class C Notes or Class D Notes shall not be required to treat the Class C Notes or Class D Notes as debt with respect to certain reporting requirements under the Code. See the discussion below under "Transfer and Other Reporting Requirements."

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If it should be determined that the Class C Notes or the Class D Notes should be treated as equity for U.S. Federal income tax purposes, the tax treatment of U.S. holders of such Notes would be the same as the tax treatment of U.S. holders of Preference Shares that have not made a "QEF election," as described below under "Tax Treatment of U.S. Holders of Preference Shares." U.S. holders should consider the tax consequences of an investment in the Class C Notes or the Class D Notes under either possible characterization. Except as otherwise indicated, the balance of this discussion assumes that the Notes are treated as debt for U.S. Federal income tax purposes.

Commitment Fee. Commitment Fee paid on a Class A-1 Note will be includible in the gross income of a U.S. holder in accordance with its regular method of tax accounting. Commitment Fee paid on a Class A-1 Note will be ordinary income.

Interest, Discount or Premium on the Notes. In general, a U.S. holder of a debt instrument is required to include payments of qualified stated interest (i.e., interest which is unconditionally payable at least annually at a single fixed rate or at a floating rate that meets certain requirements) received thereon, in accordance with such holder's method of accounting, as ordinary interest income generally from sources outside the United States. If, however, the Issue Price of the debt instrument is less than the "Stated Redemption Price at Maturity" of such debt instrument by more than a de minimis amount, a U.S. holder will be considered to have purchased such debt instrument with original issue discount ("OID"). The "Stated Redemption Price at Maturity" is the sum of all payments to be received on the debt instrument other than payments of qualified stated interest. If a U.S. holder acquires a debt instrument with OID, then, regardless of such holder's method of accounting, the holder will be required to accrue OID on a constant yield basis and include such accruals in gross income without regard to the timing of actual payments.

It is not anticipated that the Class A-1 Notes, the Class A-2 Notes or the Class B Notes will be issued with OID. Therefore, U.S. holders of the Class A-1 Notes, the Class A-2 Notes or the Class B Notes will include stated interest thereon as ordinary interest income generally from sources outside the United States, in accordance with their method of accounting.

It is anticipated that the Class C Notes will be issued with OID attributable to the difference between the Issue Price and the stated principal amount of the Class C Notes. A U.S. holder of a Class C Note will be required to accrue and include in gross income the sum of "daily portions" of total OID on a Class C Note, as ordinary interest income generally from sources outside the United States, for each day during the taxable year on which the U.S. holder held a Class C Note, generally under a constant yield method, regardless of the U.S. holder's usual method of tax accounting and without regard to the timing of actual payments on the Class C Note. The Issuer intends to accrue OID over the entire term of the non-call period, although other methods of accruing such OID may be accepted by the IRS or a court. The Issuer believes that the likelihood of interest being deferred on the Class C Notes is remote; thus stated interest on the Class C Notes will be qualified stated interest that is includible by a U.S. holder as ordinary interest income, generally from sources outside the United States, in accordance with such holder's usual method of tax accounting. Because the Class C Notes provide for a floating rate of interest, the amount of qualified stated interest and OID on such Notes will be based initially on the assumption that the floating rate in effect for the first accrual period of the Class C Notes will remain constant throughout their term. To the extent such floating rate varies with respect to any accrual period, such variation shall be reflected in an increase or decrease of the amount of qualified stated interest for such period. If the Issuer in fact does not make a current interest payment on the Class C Notes, all interest payable on such Notes will be treated as OID. As a result of the complexity of the OID rules, each U.S. holder of a Class C Note should consult its own tax advisor regarding the impact of the OID rules on its investment in such Note.

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In the case of the Class D Notes, if there is more than a remote likelihood that interest payments will be deferred and not be paid currently on such class of Notes, all interest payable on such class of Notes and any discount attributable to the difference between the Issue Price and the stated principal amount of such Notes would be treated as OID and a U.S. holder would be required to include OID in ordinary income on the basis of a constant yield to maturity, whether or not such holder receives a cash payment on any payment date and regardless of such holder's regular method of accounting. The Issuer believes that the likelihood of interest being deferred on the Class D Notes is for this purpose remote. Therefore, U.S. holders of such Notes should include stated interest thereon as ordinary interest income generally from sources outside the United States in accordance with their method of accounting. If the Issuer in fact does not make a current interest payment on a Class D Note, the holder must thereafter accrue OID on the principal amount, including any unpaid interest, and on any accrued OID on such Note.

Accrual of OID, if any, on the Notes may be subject to special rules that require use of a prepayment assumption and apply to debt instruments, the payments on which may be accelerated by reason of prepayments of other obligations securing those instruments.

In general, if the Issue Price of a Note exceeds the Stated Redemption Price at Maturity of such Note, a U.S. holder will be considered to have purchased such Note at a premium. In this event, a U.S. holder may elect to amortize the amount of such premium, using a constant rate, as an offset to interest income. It is not anticipated that the Notes will be issued at a premium.

Sale, Exchange and Retirement of the Notes. In general, a U.S. holder of a Note will have a basis in such Note equal to the cost of such Note to such holder increased by the amount of accrued OID, if any, and reduced by (i) any amortized premium applied to reduce, or allowed as a deduction against, interest on such Note and (ii) any payments other than payments of qualified stated interest on such Note. Upon a sale, exchange or retirement of a Note, a U.S. holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued interest, which would be taxable as such) and the holder's adjusted tax basis in such Note. Generally, such gain or loss will be long-term capital gain or loss if the U.S. holder held the Note for more than one year at the time of disposition. Gain recognized by a U.S. holder on the sale, exchange or retirement of a Note generally will be treated as from sources within the United States.

Tax Treatment of U.S. Holders of Preference Shares

The following discussion regarding the tax treatment of an investment in Preference Shares is intended to apply to U.S. Holders of such Preference Shares. However, if the Class C Notes or Class D Notes are recharacterized as equity for U.S. tax purposes, similar tax consequences would apply to U.S. Holders of such Notes. It should be noted that holders of the Class C Notes and Class D Notes may not be able to make timely the QEF election described below as they will have agreed in the Indenture generally to treat such Notes as debt for all tax purposes unless and until otherwise required by an applicable taxing authority.

Investment in a Passive Foreign Investment Company. The Preference Shares will constitute equity interests in the Issuer for U.S. Federal income tax purposes. In addition, the Issuer will constitute a "passive foreign investment company" (a "PFIC"). Accordingly, U.S. holders of Preference Shares will be considered U.S. shareholders in a PFIC. In general, to avoid certain adverse tax rules (described below) that apply to deferred income from a PFIC, a U.S. holder may desire to make an election to treat the Issuer as a "qualified electing fund" (a "QEF") with respect to such holder. Generally, a QEF election should be made on or before the due date for filing a U.S. holder's U.S. Federal income tax return for the first taxable year for which such U.S. holder held Preference Shares. An electing U.S. holder will be

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required to include in gross income such holder's *pro rata* share of the Issuer's ordinary earnings and to include as long-term capital gain such holder's *pro rata* share of the Issuer's net capital gain (arising from realized gains upon sales of securities), whether or not distributed, assuming that the Issuer does not constitute a "controlled foreign corporation" in which the shareholder is a *"U.S. Shareholder"* (as defined below), as discussed below. A U.S. holder will not be eligible for the preferential income tax rate on qualified dividend income or the dividends received deduction in respect of such income or gain. In addition, any losses (including losses arising from credit event payments made by the Issuer under any Synthetic Security, which losses may be substantial) of the Issuer in a taxable year will not be available to such U.S. holder. In certain cases in which a QEF does not distribute all of its earnings in a taxable year, U.S. holders of Preference Shares may also be permitted to elect generally to defer payment of the taxes on the QEF's undistributed earnings until such amounts are distributed or the Preference Shares are disposed of, subject to an interest charge on the deferred amount.

Prospective purchasers of Preference Shares should be aware that it is expected that some of the Collateral Debt Securities may be purchased by the Issuer with substantial original issue discount. As a result, the Issuer may recognize significant ordinary income from such instruments but the receipt of cash attributable to such income may be deferred, perhaps for a substantial period of time. Thus, absent an election to defer payment of taxes, U.S. holders of Preference Shares that make a QEF election may owe tax on significant amounts of "phantom" income. Moreover, some or all of the income received by the Issuer will be used to pay principal on the Notes and will not be available for distribution to holders of the Preference Shares.

The Issuer will provide all information that a U.S. holder of Preference Shares making a QEF election is required to obtain for U.S. Federal income tax purposes (*e.g.*, the U.S. holder's *pro rata* share of ordinary income and net capital gain) and will provide a "PFIC Annual Information Statement" as described in U.S. Treasury Regulations, including all representations and statements required by such statement, and will take other reasonable steps to facilitate such election.

If a U.S. holder of Preference Shares does not make a timely QEF election and the PFIC rules are otherwise applicable, a U.S. holder (other than certain U.S. holders that are subject to the rules relating to a "controlled foreign corporation" described below) would be required to report any gain on disposition of any Preference Shares as ordinary income and to compute the tax liability on such gain and certain "excess distributions" as if the items had been earned ratably over each day in the U.S. holder's holding period for the Preference Shares and would be subject to the highest ordinary income tax rate for each prior taxable year in which the items were treated as having been earned, regardless of the rate otherwise applicable to the U.S. holder. Such U.S. holder would also be liable for an additional tax equal to interest on the tax liability attributable to such income allocated to prior years as if such liability had been due with respect to each such prior year. For purposes of these rules, gifts, bequests or exchanges pursuant to corporate reorganizations and use of the Preference Shares as security for a loan may be treated as a taxable disposition. An "excess distribution" is the amount by which distributions during a taxable year in respect of a Preference Share exceed 125 percent of the average amount of distributions in respect thereof during the three preceding taxable years (or, if shorter, the U.S. holder's holding period for the Preference Share). In addition, a stepped-up basis in the Preference Shares upon the death of an individual U.S. holder may not be available.

U.S. HOLDERS OF PREFERENCE SHARES SHOULD CONSIDER CAREFULLY WHETHER TO MAKE A QEF ELECTION WITH RESPECT TO THE PREFERENCE SHARES AND THE CONSEQUENCES OF NOT MAKING SUCH AN ELECTION.

Investment in a Controlled Foreign Corporation. Depending on the degree of ownership of the equity interests in the Issuer by "U.S. Shareholders" (as defined below), the Issuer may constitute a

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controlled foreign corporation (a "*CFC*"). In general, a foreign corporation will constitute a CFC if more than 50% of the shares of the corporation, measured by reference to combined voting power or value, are held, directly or indirectly, by U.S. Shareholders. A "*U.S. Shareholder*," for this purpose, is any person that is a U.S. person for U.S. Federal income tax purposes that possesses (actually or constructively) 10% or more of the combined voting power of all classes of shares of a corporation (persons who own interests in a U.S. pass-through entity which is a U.S. Shareholder will also be subject to the CFC rules described below). It is possible that the IRS would assert that the Preference Shares (and the Class C Notes and/or the Class D Notes if treated as equity for U.S. Federal income tax purposes) are voting securities and that U.S. holders possessing 10% or more of the combined voting power of the Preference Shares (and the Class C Notes and/or the Class D Notes if treated as equity for U.S. Federal income tax purposes) are U.S. Shareholders for purposes of the CFC rules. If this argument were successful and more than 50% of such interests were held by such U.S. Shareholders, the Issuer would be treated as a CFC.

If the Issuer should constitute a CFC, each U.S. Shareholder of the Issuer would be treated, subject to certain exceptions, as receiving ordinary income at the end of the taxable year of the Issuer in an amount equal to that person's *pro rata* share of the "subpart F income" and certain other income of the Issuer. Among other items, and subject to certain exceptions, "subpart F income" includes dividends, interest, annuities, gains from the sale of shares and securities, certain gains from commodities transactions, certain types of insurance income, income from certain notional principal contracts (e.g. swaps and caps) and income from certain transactions with related parties. It is likely that predominantly all of the Issuer's income would be subpart F income. If more than 70% of the Issuer's gross income is subpart F income in any year, 100% of its income in such year would be treated as subpart F income. Prospective purchasers of the Preference Shares should be aware that such income of the Issuer may significantly exceed the Issuer's distributions on the Preference Shares for one or more periods, and that a U.S. Shareholder may owe tax on significant amounts of "phantom income."

If the Issuer should be treated as a CFC, a U.S. Shareholder of the Issuer would be taxable on the subpart F income of the Issuer under the rules applicable to a CFC described in the preceding paragraph and not under the PFIC rules previously described. As a result, to the extent subpart F income of the Issuer includes net capital gains, such gains will be treated as ordinary income of the U.S. Shareholder under the CFC rules, notwithstanding the fact that the character of such gains generally would otherwise be preserved under the PFIC rules if a QEF election had been made. Also, the PFIC rule permitting the deferral of tax on undistributed earnings would not apply.

Distributions on Preference Shares. The treatment of actual distributions of cash on the Preference Shares, in very general terms, will vary depending on whether a U.S. holder has made a timely QEF election as described above. See "*—Investment in a Passive Foreign Investment Company*." If a timely QEF election has been made, distributions should be allocated first to amounts previously taxed pursuant to the QEF election (or pursuant to the CFC rules, if applicable) and to this extent would not be taxable to U.S. holders. Distributions in excess of such previously taxed amounts and any remaining amounts of earnings and profits will generally be treated first as a nontaxable return of capital to the extent of the holders tax basis in the Preference Shares and then as capital gain.

In the event that a U.S. holder does not make a timely QEF election, then, except to the extent that distributions may be attributable to amounts previously taxed pursuant to the CFC rules, some or all of any distributions with respect to the Preference Shares may constitute excess distributions, taxable as previously described. See "*—Investment in a Passive Foreign Investment Company*."

Distributions on the Preference Shares will not constitute "qualified dividend income" eligible, in the case of individuals, for a reduced rate of tax.

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Sale, Redemption or Other Disposition of Preference Shares. In general, a U.S. holder of a Preference Share will recognize gain or loss upon the sale or other disposition of a Preference Share equal to the difference between the amount realized and such holder's adjusted tax basis in the Preference Share. If a U.S. holder has made a timely QEF election as described above, such gain or loss will be long-term capital gain or loss if the U.S. holder held the Preference Shares for more than 12 months at the time of the disposition.

Initially, the tax basis of a U.S. holder should equal the amount paid for a Preference Share. Such basis will be increased by amounts taxable to such holder by virtue of a QEF election or the CFC rules and decreased by actual distributions from the Issuer that are deemed to consist of such previously taxed amounts or are treated as nontaxable returns of capital (as described above).

If a U.S. holder does not make a timely QEF election as described above, any gain realized on the sale or other disposition of a Preference Share will be subject to an interest charge and taxed as ordinary income under the special tax rules described above. See "*—Investment in a Passive Foreign Investment Company.*"

If the Issuer is treated as a CFC and a U.S. holder is treated as a "U.S. Shareholder" therein, then any gain realized by such holder upon the disposition of Preference Shares will be treated as ordinary income to the extent of such U.S. Shareholder's share of the current and accumulated earnings and profits of the Issuer. In this respect, earnings and profits would not include any amounts previously taxed pursuant to a timely QEF election or pursuant to the CFC rules.

Transfer and Other Reporting Requirements. U.S. holders of the Preference Shares (and the Class C Notes and/or the Class D Notes if treated as equity for U.S. Federal income tax purposes) will generally be required to report to the IRS on Form 926 certain information relating to such holders' purchase of the Preference Shares (or the Class C Notes and/or the Class D Notes) at initial issuance. **In the event a U.S. holder fails to file any such required form, the U.S. holder could be subject to a penalty equal to 10% of the gross amount paid for the Preference Shares (or the Class C Notes and/or the Class D Notes) subject to a maximum penalty equal to $100,000 (except in cases of intentional disregard).** U.S. holders of Preference Shares, the Class C Notes and the Class D Notes are urged to consult with their own tax advisors regarding these reporting requirements and any other reporting requirements, such as an IRS Form 5471, which may apply to such holders.

Tax-Exempt Investors.

Special considerations apply to pension plans and other investors ("Tax-Exempt Investors") that are subject to tax only on their unrelated business taxable income ("UBTI"). A Tax-Exempt Investor's income from an investment in the Offered Securities generally will not be treated as resulting in UBTI, so long as such investor's acquisition of Offered Securities is not debt-financed. A Tax-Exempt Investor that owns more than 50% of the equity (including the Class C Notes and/or the Class D Notes, if treated as equity for U.S. Federal income tax purposes) of the Issuer and also owns Notes treated as debt should consider the application of the special UBTI rules for interest received from controlled entities. Tax-Exempt Investors should consult their own tax advisors regarding an investment in the Offered Securities.

Tax Treatment of Non-U.S. Holders of Notes or Preference Shares

Subject to the discussion below regarding "backup withholding," a non-U.S. holder of the Offered Securities will be exempt from any U.S. Federal income or withholding taxes with respect to gain derived from the sale, exchange, or redemption of, or any distributions received in respect of, Offered Securities of the Issuer, unless such gain or distributions are effectively connected with a U.S. trade or business of

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such holder, or, in the case of a gain, such holder is a nonresident alien individual who holds the Offered Securities as a capital asset and who is present in the United States for 183 days or more in the taxable year of the disposition, and certain other conditions are satisfied.

Information Reporting and Backup Withholding

Under certain circumstances, the Code requires information reporting annually to the IRS and to each holder, and "backup withholding" with respect to certain payments made on or with respect to the Offered Securities. These requirements generally do not apply with respect to certain holders, including corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts. Backup withholding will apply to a U.S. holder only if the U.S. holder (i) fails to furnish its Taxpayer Identification Number ("TIN"), which for an individual would be his or her Social Security Number, (ii) furnishes an incorrect TIN, (iii) is notified by the IRS that it has failed to properly report payments of interest and dividends or (iv) under certain circumstances, fails to certify, under penalty of perjury, that it has furnished a correct TIN. The application for exemption is available by providing a properly completed IRS Form W-9. Each U.S. holder agrees that by such holder's or beneficial owner's acceptance of an Offered Security or an interest therein that such holder or beneficial owner will provide (or cause to be provided) to the Issuer (or the Trustee on behalf of the Issuer) or other applicable withholding agent a properly completed IRS Form W-9 signed under penalties of perjury.

A non-U.S. holder that provides the applicable IRS Form W-8BEN, IRS Form W-8IMY or other applicable form, together with all appropriate attachments, signed under penalties of perjury, identifying the non-U.S. holder and stating that the non-U.S. holder is not a United States person will not be subject to the IRS reporting requirements relating to U.S. withholding and backup withholding. In addition, IRS Form W-8BEN or other applicable form will be required from the beneficial owners of interests in a non-U.S. holder that is treated as a partnership (or as a trust of certain types) for U.S. Federal income tax purposes. Each non-U.S. holder agrees that by such holder's or beneficial owner's acceptance of an Offered Security or an interest therein that such holder or beneficial owner will provide (or cause to be provided) to the Issuer (or the Trustee on behalf of the Issuer) or other applicable withholding agent a properly completed IRS Form W-8BEN, W-8IMY or other applicable form signed under penalties of perjury.

The payment of the proceeds on the disposition of an Offered Security by a holder to or through the U.S. office of a broker generally will be subject to information reporting and backup withholding unless the holder either certifies its status as a non-U.S. holder under penalties of perjury on the applicable IRS Form W-8BEN, IRS Form W-8IMY or other applicable form (as described above) or otherwise establishes an exemption. The payment of the proceeds on the disposition of an Offered Security by a non-U.S. holder to or through a non-U.S. office of a non-U.S. broker will not be subject to backup withholding or information reporting unless the non-U.S. broker is a "U.S. Related Person". The payment of proceeds on the disposition of an Offered Security by a non-U.S. holder to or through a non-U.S. office of a U.S. broker or a U.S. Related Person generally will not be subject to backup withholding but will be subject to information reporting unless the holder certifies its status as a non-U.S. holder under penalties of perjury or the broker has certain documentary evidence in its files as to the non-U.S. holder's foreign status and the broker has no actual knowledge to the contrary.

For this purpose, a "U.S. Related Person" is (i) a "controlled foreign corporation" for U.S. Federal income tax purposes, (ii) a foreign person 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the broker has been in existence) is derived from activities that are effectively connected with the conduct of a U.S. trade or business or (iii) a foreign partnership if at any time during its tax year one or more of its partners are United States persons who, in the aggregate, hold more than 50% of the income

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or capital interest of the partnership or if, at any time during its taxable year, the partnership is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax and may be refunded (or credited against the holder's U.S. Federal income tax liability, if any); *provided* that certain required information is furnished. The information reporting requirements may apply regardless of whether withholding is required. Copies of the information returns reporting such interest and withholding also may be made available to the tax authorities in the country in which a non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

Tax Shelter Reporting Requirements

Pursuant to Treasury Regulations directed at tax shelter activity, taxpayers are required to disclose to the IRS certain information on IRS Form 8886 if they participate in a "reportable transaction." A transaction may be a "reportable transaction" based upon any of several indicia with respect to a holder, including the existence of significant book-tax differences or the recognition of a loss in excess of certain thresholds. In addition, a U.S. holder of 10% of the Preference Shares (or the Class C Notes and/or Class D Notes, if treated as equity for U.S. Federal income tax purposes) could be subject to these disclosure requirements if the Issuer engages in any "reportable transaction." A significant penalty will be imposed on taxpayers who participate in a "reportable transaction" and fail to make the required disclosure in tax returns and statements due after October 22, 2004. The penalty is generally $10,000 for natural persons and $50,000 for other persons (increased to $100,000 and $200,000, respectively, if the reportable transaction is a "listed" transaction). Investors should consult their own tax advisors concerning any possible disclosure obligation with respect to their investment in the Issuer and the penalty discussed above.

Cayman Islands Tax Considerations

For purposes of Cayman Islands law, all Classes of Notes will be characterized as debt of the Issuer.

The following comments are based on advice of Walkers received by the Issuer regarding current law and practice in the Cayman Islands and are intended to assist investors in the Notes or the Preference Shares. Investors should consult their professional advisors on the possible tax consequences of such investors subscribing for, purchasing, holding, selling or redeeming Notes or Preference Shares under the laws of such investors' countries of citizenship, residence, ordinary residence or domicile.

The following is a general summary of Cayman Islands taxation in relation to the Notes and the Offered Shares.

Under existing Cayman Islands laws:

(a) payments in respect of the Notes or the Preference Shares will not be subject to taxation in the Cayman Islands, no withholding will be required on such payments to any holder of a Note or a Preference Share, and gains derived from the sale of Notes or Preference Shares will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(b) the holder of any Note (or the legal personal representative of such holder), if such Note is brought into the Cayman Islands, may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note. In addition, an instrument transferring title

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to a Note, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. No stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution and issue of the Preference Share certificates or in respect of the execution and delivery of an instrument of transfer of Preference Shares.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and expects to obtain, an undertaking from the Governor in Cabinet of the Cayman Islands substantially in the following form:

"TAX CONCESSIONS LAW
(1999 REVISION)
UNDERTAKING AS TO TAX CONCESSIONS

In accordance with the provisions of Section 6 of the Tax Concessions Law (1999 Revision) the Governor in Cabinet undertakes with:

Kleros Preferred Funding, Ltd., "the Company"

(a) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

(i) on or in respect of the shares debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of THIRTY years from the 29th day of April 2005.

GOVERNOR IN CABINET"

The Cayman Islands does not have a double tax treaty arrangement with the U.S. or any other country.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN OF THE TAX IMPLICATIONS OF AN INVESTMENT IN THE NOTES OR THE PREFERENCE SHARES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS PRIOR TO INVESTING TO DETERMINE THE TAX IMPLICATIONS OF SUCH INVESTMENT IN LIGHT OF SUCH INVESTOR'S CIRCUMSTANCES.

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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 that 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 Section 4975 of 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 Trustee, the Collateral Manager, each Hedge Counterparty and/or the Initial Purchaser 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 Trustee, the Collateral Manager, the Initial Purchaser, a Hedge Counterparty 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

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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.

Government 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, having discretionary authority or control over the assets of the entity or providing investment advice with respect to the assets of the entity for a fee, direct or indirect, 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. Although the issue is not free from doubt, on the date of issuance, it is not anticipated that the Class A-1 Notes, the Class A-2 Notes and the Class B Notes will constitute "equity interests" in the Co-Issuers. Based primarily on the investment-grade rating of each of the Class C Notes and the Class D Notes, the unconditional obligation of the Co-Issuers to repay principal and accrued interest by a fixed maturity date and the creditors' remedies available to holders of the Class C Notes and the Class D Notes, on the date of issuance, it is anticipated that the Class C Notes and the Class D Notes should not constitute "equity interests" in the Co-Issuers, despite their subordinated position in the capital structure of the Co-Issuers. However, there can be no assurance that each Class of Notes would be characterized by the United States Department of Labor or others as indebtedness and not as equity interests on the date of issuance or at any given time thereafter. In addition, the status of any Class of Notes as indebtedness could be affected, subsequent to their issuance, by certain changes in the structure or financial condition 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 or the Class D Notes by Benefit Plan Investors.

It is likely that the Preference Shares will constitute "equity interests" in the Co-Issuers. Accordingly, it is intended that the ownership interests in the Preference Shares that are held by Benefit

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Plan Investors will be maintained at a level below the 25% Threshold (excluding Preference Shares held by Controlling Persons) by prohibiting the transfer of Preference Shares to Benefit Plan Investors or Controlling Persons after the Closing Date. No interest in a Preference Share sold in reliance on Regulation S may be sold to a Benefit Plan Investor or a Controlling Person. No interest in a Regulation S Preference Share may thereafter be transferred to a Benefit Plan Investor or a Controlling Person. Each Original Purchaser and each transferee of an interest in a Regulation S Global Preference Share will be required to deliver a letter in the form of Exhibit A hereto. Each Original Purchaser of Restricted Definitive Preference Shares from the Issuer or the Initial Purchaser will be required to certify in the Investor Application Form pursuant to which such Preference Shares were purchased whether or not it is a Benefit Plan Investor or a Controlling Person. No subsequent transferee of a Restricted Definitive Preference Share may be a Benefit Plan Investor or a Controlling Person. Any subsequent transferee that acquires Definitive Preference Shares will be required to represent as to similar matters in the transfer certificate delivered to the Issuer and the Preference Share Registrar in connection with such transfer. In particular, each owner of an interest in a Definitive Preference Share will be required to execute and deliver to the Issuer and the Preference Share Registrar a transfer certificate in the form attached as an exhibit to the Preference Share Paying Agency Agreement to the effect that such owner will, prior to any sale, pledge or other transfer by it of any Definitive Preference Share (or any interest therein), obtain from the transferee a duly executed transferee certificate in the form attached to the Preference Share Paying Agency Agreement, and such other certificates and other information as the Issuer or the Preference Share Paying Agent may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions contained in the Preference Share Documents.

If for any reason the assets of the Issuer are deemed to be "plan assets" of a Plan subject to Title I of ERISA or the prohibited transaction provisions of Section 4975 of the Code because one or more 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 the Issuer 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 by the Issuer 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 the Issuer 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 not clear that Section 403(a) of ERISA, which generally requires that all of the assets of an ERISA Plan be held in trust and limits delegation of investment management responsibilities by fiduciaries of ERISA Plans, would be satisfied. It is also not clear whether Section 404(b) of ERISA, which generally provides that no fiduciary may maintain the indicia of ownership of any assets of a plan outside the jurisdiction of the district courts of the United States, would be satisfied or any of the exceptions to this requirement set forth in 29 C.F.R. Section 2550.404b-1 would be available.

In addition, it should be noted that, if Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes or Class D Notes are acquired by a Plan with respect to which a holder of a Preference Share is a Party-In-Interest or a Disqualified Person, such transaction could be deemed to be a direct or indirect violation of the prohibited transaction rules of ERISA and Section 4975 of the Code unless such Plan's purchase and holding of Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes were subject to one or more statutory, regulatory, or administrative exemptions from the prohibited transaction rules. In this regard, each Plan, and each Person investing plan assets, that purchases Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes or Class D Notes will be deemed to represent and warrant that its purchase of the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes or Class D Notes is subject to an exemption from the prohibited transaction rules.

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The sale of any Offered Security to a Plan is in no respect a representation by the Issuer, the Initial Purchaser 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 TRANSFEREE OF A CLASS A-1 NOTE, CLASS A-2 NOTE, CLASS B NOTE, CLASS C NOTE OR CLASS D NOTE OR AN INTEREST THEREIN WILL BE REQUIRED TO CERTIFY (OR IN CERTAIN CIRCUMSTANCES DEEMED TO REPRESENT AND WARRANT) EITHER THAT (A) IT IS NOT (AND FOR SO LONG AS IT HOLDS ANY CLASS A-1 NOTE, CLASS A-2 NOTE, CLASS B NOTE, CLASS C NOTE OR CLASS D NOTE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS ANY CLASS A-1 NOTE, CLASS A-2 NOTE, CLASS B NOTE OR CLASS C NOTE OR INTEREST THEREIN 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") THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (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 THE PROHIBITED TRANSACTION PROVISIONS OF 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 ("SIMILAR LAW"), OR (B) ITS ACQUISITION AND HOLDING OF SUCH NOTE WILL NOT CONSTITUTE A NON-EXEMPT 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, WILL NOT RESULT IN A VIOLATION OF SUCH LAW OR SUCH SIMILAR LAW).

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A PREFERENCE SHARE OR A BENEFICIAL INTEREST THEREIN WILL BE REQUIRED TO CERTIFY THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THE PREFERENCE SHARE OR AN INTEREST THEREIN WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS A PREFERENCE SHARE OR ANY INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR, EXCEPT THAT, ON THE CLOSING DATE, IT MAY BE A BENEFIT PLAN INVESTOR WHOSE INVESTMENT IN RESTRICTED DEFINITIVE PREFERENCE SHARES 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, WILL NOT RESULT IN A VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW) BUT ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, LESS THAN 25% OF THE VALUE OF THE PREFERENCE SHARES WOULD BE HELD BY BENEFIT PLAN INVESTORS (DETERMINED AFTER EXCLUDING PREFERENCE SHARES HELD BY CONTROLLING PERSONS).

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

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INVESTMENT POLICY OF THE PLAN AND THE COMPOSITION OF THE PLAN'S INVESTMENT PORTFOLIO. NO TRANSFER OF A PREFERENCE SHARE WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE PAYING AGENT WILL RECOGNIZE ANY SUCH TRANSFER AFTER THE CLOSING DATE IF SUCH TRANSFER IS TO A BENEFIT PLAN INVESTOR.

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. §2550.40c-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.

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PLAN OF DISTRIBUTION

The Co-Issuers and the Initial Purchaser will enter into a Purchase Agreement (the "Purchase Agreement") relating to the purchase and sale of the Offered Securities to be delivered on the Closing Date. The Offered Securities will be offered by the Initial Purchaser to prospective investors from time to time in individually negotiated transactions at varying prices to be determined at the time of sale. The Initial Purchaser reserves the right to withdraw, cancel, or modify such offer and to reject orders in whole or in part. The Initial Purchaser's responsibility is limited to a "reasonable efforts" basis in placing the Offered Securities, with no understanding, express or implied, on the part of the Initial Purchaser of a commitment by the Initial Purchaser, whether as principal or agent, to purchase or place the Offered Securities. The obligations of the Initial Purchaser under the Purchase Agreement are subject to the satisfaction of certain conditions set forth in the Purchase Agreement. Pursuant to the Purchase Agreement, each of the Co-Issuers will agree 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. The Offered Securities are offered when, as and if issued by the Co-Issuers, subject to prior sale or withdrawal, cancellation or modification of the offer without notice and subject to approval of certain legal matters by counsel and certain other conditions.

Each Original Purchaser of a Preference Share will be required to execute and deliver an Investor Application Form 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 United States in reliance upon an exemption from the registration requirements of the Securities Act to Qualified Purchasers who are also either (i) Qualified Institutional Buyers or (ii) Accredited Investors 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.

CERTAIN SELLING RESTRICTIONS

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.

(1) In the 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 persons who are not 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 (if any) 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 and they have complied and will comply with the offering restrictions requirements of Regulation S.

(2) In the 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):

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(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 the Initial Purchaser reasonably believes is a Qualified Institutional Buyer or 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 (in each of the foregoing cases) is also a Qualified Purchaser or (2) otherwise in accordance with the restrictions on transfer set forth in such Offered Securities, the Purchase Agreement and this Offering Circular; 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.

(3) In the Purchase Agreement, the Initial Purchaser will represent and agree that in connection with each sale 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 would not, if each of the Co-Issuers were not an authorized person, apply to 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 any of the Offered Securities.

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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 (the "Companies Ordinance"); 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, other than with respect to Notes intended to be disposed of to persons outside Hong Kong or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal, or holdings of securities, whether as principal or agent.

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 the Offering Circular, 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.

Purchasers of the Offered Securities will be required, as a condition to payment of amounts on the Offered Securities without the imposition of withholding tax, to provide certain certifications with respect to any applicable taxes or reporting requirements of the United States or the Cayman Islands.

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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 Initial Purchase. Each Original Purchaser of Notes (or any beneficial interest therein) will be deemed to acknowledge, represent and warrant to and agree with the Co-Issuers and the Initial Purchaser, and each Original Purchaser of Preference Shares (or any beneficial interest therein) will be required in an Investor Application Form to acknowledge, represent and warrant to and agree with the Issuer 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 such Offered Security (or any interest therein), obtain from the transferee and deliver to the Issuer and the Note Registrar (in the case of a Note) or the Preference Share Registrar (in the case of a Preference Share) a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture or the Preference Share Paying Agency Agreement, as the case may be, and such other certificates and other information as the Issuer, the Trustee (in the case of the Notes) or the Preference Share Registrar (in the case of the Preference Shares) may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular and the Indenture or the Preference Share Documents.

(3) *Minimum Denominations*. The purchaser agrees that no Offered Security (or any interest therein) may be sold, pledged or otherwise transferred in a denomination of less than the applicable minimum denomination set forth in the Indenture (in the case of the Notes) or the Preference Share Documents (in the case of the Preference Shares).

(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 Documents).

(5) *Qualified Institutional Buyer, 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 Global Note (or interest therein) or a Restricted Definitive Preference Share, it is (a) a Qualified Institutional Buyer or (b) (in the case of an Original Purchaser) an Accredited Investor and is acquiring the Offered Securities for its own account for investment purposes and not with a view to the distribution

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thereof (except in accordance with Rule 144A). In the case of a purchaser who takes delivery of Regulation S Notes or Regulation S Preference Shares, (i) it is not a U.S. Person and is purchasing such Note or Preference Share for its own account and not for the account or benefit of a U.S. Person and (ii) it understands that (A) interests in a Regulation S Global Note and a Regulation S Global Preference Share may only be held through Euroclear or Clearstream, Luxembourg, (B) in the case of Regulation S Preference Shares, delivery may be made only in accordance with the certification requirements set forth in the Preference Share Documents and the Preference Share Paying Agency Agreement and (C) if in the future it decides to transfer interests held in such Regulation S Global Note or Regulation S Global Preference Share, it will transfer the interest in such Regulation S Global Note or Regulation S Global 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 Note or a Restricted Definitive 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 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, the Collateral Manager or any of their respective affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in 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 Issuer and the Offered Securities 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 Issuer and the terms and conditions of the offering of the Offered Securities. The purchaser acknowledges that it is aware that the Collateral Management Agreement and the Indenture authorize the Collateral Manager to cause the Issuer to purchase Collateral Debt Securities from, and sell Collateral Debt Securities to, the Collateral Manager, its Affiliates and funds managed by the Collateral manager or its Affiliates and the purchaser consents to such purchases and sales; provided that they are carried out in compliance with the provisions of the Collateral Management Agreement and the Indenture.

(7) *Certain Resale Limitations.* The purchaser is aware that no Offered Securities (or any interest therein) may be offered, sold, pledged or otherwise transferred to (a) a transferee acquiring a Restricted Global Note (or interest therein) or Restricted Definitive Preference Share except (i)(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 of the Securities Act provided by Rule 144A and that is a Qualified Purchaser or (B) solely in the case of a Restricted Definitive Preference Share, 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), (ii) to a transferee that is a U.S. Person, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) in the case of a transfer of an interest in a Preference Share (other than the transfer of a Restricted Definitive Preference Share to an Original Purchaser) to a transferee who is neither a Benefit Plan Investor nor a Controlling Person, (v) in compliance with the certification (if any) and other requirements set forth in the Indenture or the Preference Share Documents and (vi) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (b) a transferee acquiring an interest in a Regulation S Note or a Regulation S Preference Share except (i) to a transferee that is acquiring such interest in an offshore transaction in accordance with Rule 903 or Rule 904 of

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Regulation S, (ii) to a transferee that is not a U.S. Person, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) in the case of any transfer of an interest in a Preference Share, to a transferee who is neither a Benefit Plan Investor nor a Controlling Person, (v) in compliance with the certification (if any) and other requirements set forth in the Indenture or the Preference Share Documents and (vi) 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 Offered Securities and that no assurance can be given as to the liquidity of any trading market for such Class of Offered Securities or that a trading market for such Class of Offered Securities will develop. It further understands that, although the Initial Purchaser may from time to time make a market in a Class of Offered Securities, the Initial Purchaser is not under any 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 such 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 any interest therein) may be made (a) to a transferee acquiring Restricted Notes (or any interest therein) except to a transferee that is a Qualified Purchaser, (b) to a transferee acquiring an interest in a Regulation S Note that is not a U.S. Person in an offshore transaction in accordance with Regulation S or (c) if such transfer 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. 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.

(10) *ERISA*. In the case of a purchaser of a Class A-1 Note, Class A-2 Note, Class B Note, Class C Note or Class D Note or an Original Purchaser of a Restricted Definitive Preference Share, either (a) it is not (and for so long as it holds any such Note or Preference Share or any interest therein will not be) a Benefit Plan Investor, or (b) its purchase and ownership of such Note will not constitute a non-exempt prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code.

In addition, if a purchaser of a Class A-1 Note, Class A-2 Note, Class B Note, Class C Note or Class D Note or an Original Purchaser of a Restricted Definitive Preference Share is a Benefit Plan Investor, its fiduciaries 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 such 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 Similar Law.

In the case of an Original Purchaser of a Restricted Definitive Preference Share that purchases from the Issuer or the Initial Purchaser, except as otherwise disclosed in the Investor Application Form, either (a) the purchaser is not a Benefit Plan Investor or a Controlling Person or (b) its purchase and

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ownership of such Restricted Definitive Preference Share will not constitute a non-exempt prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code. Each purchaser of a Preference Share understands and agrees that no sale, pledge or other transfer of a Preference Share (or any interest therein) after the Closing Date may be made to a Benefit Plan Investor or a Controlling Person.

Each Original Purchaser acquiring an interest in a Regulation S Global Preference Share will be required to execute and deliver to the Issuer and the Preference Share Paying Agent a letter substantially in the form attached as Exhibit A hereto which includes a representation that such Original Purchaser is not a Benefit Plan Investor or a Controlling Person and will not transfer such interest except as otherwise in compliance with the transfer restrictions set forth in the Preference Share Paying and Transfer Agency Agreement (including the requirement that any subsequent transferee execute and deliver a letter in the form attached as Exhibit A hereto which will include a representation to the effect that such transferee is not a Benefit Plan Investor or a Controlling Person).

(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 (i) in the case of a purchaser that would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, the amount of the purchaser's investment in the Offered Securities (including its investment in all Classes of Notes and the Preference Shares) exceeds 40% of the total assets (determined on a consolidated basis with its subsidiaries) of the purchaser; (ii) any Person owning any equity or similar interest in the purchaser has the ability to control any investment decision of the purchaser or to determine, on an investment-by-investment basis, the amount of such Person's contribution to any investment made by the purchaser; (iii) the purchaser was organized or reorganized for the specific purpose of acquiring any Offered Securities or (iv) 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. A "Qualifying Investment Vehicle" is an entity 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 Co-Issuers and the Note Registrar or the Preference Share Registrar, as the case may be, each of the representations set forth in this Offering Circular and in the Indenture or the Preference Share Documents required to be made upon transfer of any Offered Securities (with modifications to such representations satisfactory to the Issuer to reflect the indirect nature of the interests of such beneficial owners in such Notes, including any modification permitting an initial beneficial owner of securities issued by such entity to represent that it is an Accredited Investor).

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 or the Preference Share Documents, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, 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

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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.

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 and (B) is not a Qualified Institutional Buyer (unless such beneficial owner is an Accredited Investor that purchased such Restricted Note or interest therein directly from the Co-Issuers or the Initial Purchaser) and also a Qualified Purchaser, then either of the Co-Issuers may require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest to such Restricted 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 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 an investment bank selected by the Trustee and approved by the Issuer 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 or that may decline speedily in value) to a person that certifies to the Trustee and the Co-Issuers, in connection with such transfer, that such person is a both 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 and such Note shall be deemed not to be outstanding for the purpose of any vote or consent of the Noteholders.

(13) *Limitation on Sales of Preference Shares to Reg Y Institutions.* Each purchaser of Preference Shares understands that no Reg Y Institution may transfer any Preference Shares held by it to any person other than (i) a person or group of persons under common control that controls the Issuer without reference to any Preference Shares transferred to such person or group by such Reg Y Institution (a "*Reg Y Controlling Party*"), (ii) a person or persons designated by a Reg Y Controlling Party, (iii) in a widespread public distribution as part of a public offering, (iv) in amounts such that, after giving effect thereto, no single transferee and its affiliates will hold more than 2% of the aggregate number of Preference Shares (including all options, warrants and similar rights exercisable or convertible into Preference Shares) or (v) as otherwise permitted by applicable U.S. Federal banking law and regulations.

(14) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuer, the Initial Purchaser, the Trustee, the Collateral Manager and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties 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 and the Initial Purchaser.

(15) *Cayman Islands.* The purchaser is not a member of the public in the Cayman Islands.

(16) *Legend.* Each purchaser of a Note (or any beneficial interest therein) understands and agrees that a legend in substantially the following form will be placed on each Note:

> THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE 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 BENEFICIAL INTERESTS HEREIN 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

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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) TO A PERSON THAT IS NOT A U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S 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 NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT").

NO TRANSFER OF A NOTE (OR ANY INTEREST THEREIN) 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 THAT IS NOT BOTH (X) A QUALIFIED INSTITUTIONAL BUYER AND ALSO (Y) EITHER (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 OF THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE SUCH QUALIFIED PURCHASERS AND/OR KNOWLEDGEABLE EMPLOYEES (EACH OF (I), (II) AND (III), A "QUALIFIED PURCHASER"), (B) SUCH TRANSFER 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, (C) SUCH TRANSFER WOULD BE MADE TO A U.S. PERSON 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 ANY) ATTACHED AS AN EXHIBIT TO THE INDENTURE REFERRED TO BELOW. EACH HOLDER OF A BENEFICIAL INTEREST IN THIS NOTE 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 NOTE OR AN INTEREST HEREIN 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") THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (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 THE PROHIBITED TRANSACTION PROVISIONS OF 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 ("SIMILAR LAW") OR (B) THE ACQUISITION AND HOLDING OF THIS NOTE WILL NOT CONSTITUTE A NON-EXEMPT 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, WILL NOT RESULT IN A VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW). THE NOTES OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED ONLY IN PERMITTED

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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][1] [RESTRICTED NOTE][2] 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 THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

The following will be inserted in the case of Class C Notes:

THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("OID") FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE ISSUE PRICE, AMOUNT OF OID, ISSUE DATE AND YIELD TO MATURITY OF THIS NOTE MAY BE OBTAINED BY WRITING TO THE ISSUER AT C/O WALKERS SPV LIMITED, P.O. BOX 908GT, WALKER HOUSE, MARY STREET, GEORGE TOWN, GRAND CAYMAN, CAYMAN ISLANDS.

The following will be inserted in the case of Global Notes:

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE NOTE 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.

In addition, the legend set forth on any Restricted Note will also have the following:

IF, NOTWITHSTANDING THE RESTRICTIONS ON TRANSFER CONTAINED IN THIS NOTE OR THE INDENTURE, THE ISSUER 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 (I) A QUALIFIED INSTITUTIONAL BUYER (OR, IN THE CASE OF THE INITIAL PURCHASER OF SUCH RESTRICTED NOTE OR INTEREST THEREIN, AN ACCREDITED INVESTOR) 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 RESTRICTED 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 ISSUER, THE TRUSTEE (ON BEHALF OF AND AT THE EXPENSE OF THE ISSUER) SHALL CAUSE SUCH

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[2] Regulation S Notes only.

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BENEFICIAL OWNER'S INTEREST IN SUCH NOTE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE TRUSTEE AND APPROVED BY THE ISSUER 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 OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON THAT CERTIFIES TO THE TRUSTEE AND THE CO-ISSUERS, 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 (OR INTEREST THEREIN) HELD BY SUCH BENEFICIAL OWNER, AND THE INTEREST IN THIS NOTE SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE HOLDERS OF THE NOTES.

IN ADDITION, 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 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.

In addition, the legend set forth on any Regulation S Note will also have the following:

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY NOT BE HELD BY A U.S. PERSON AT ANY TIME.

(17) *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 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 REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") OR (3) 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

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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 ISSUER CHARTER AND 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 APPLICABLE JURISDICTION. NEITHER THE ISSUER NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT").

EACH PURCHASER THAT IS AN ORIGINAL PURCHASER FROM THE ISSUER OR THE INITIAL PURCHASER ON THE CLOSING DATE (AN "ORIGINAL PURCHASER") AND EACH TRANSFEREE OF A PREFERENCE SHARE OR A BENEFICIAL INTEREST THEREIN WILL BE REQUIRED TO REPRESENT AND WARRANT THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS PREFERENCE SHARE OR AN INTEREST HEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS PREFERENCE SHARE OR AN INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR (AS DEFINED IN THE PLAN ASSET REGULATION OF THE UNITED STATES DEPARTMENT OF LABOR, 29 C.F.R. SECTION 2510.3-101(f) (A "BENEFIT PLAN INVESTOR")) OR A PERSON THAT IS NOT A BENEFIT PLAN INVESTOR BUT WHICH HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR PROVIDES INVESTMENT ADVICE WITH RESPECT TO THE ASSETS OF THE ISSUER FOR A FEE, DIRECT OR INDIRECT, WITH RESPECT TO SUCH ASSETS OR WHO IS AN AFFILIATE OF ANY SUCH PERSON (A "CONTROLLING PERSON")[, EXCEPT THAT, ON THE CLOSING DATE, IT MAY BE EITHER A CONTROLLING PERSON OR A BENEFIT PLAN INVESTOR WHOSE INVESTMENT IN PREFERENCE SHARES 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, WILL NOT RESULT IN A VIOLATION OF ANY SUCH LAW OR SIMILAR LAW) BUT ONLY IF, IN EITHER CASE, AFTER GIVING EFFECT TO SUCH PURCHASE, LESS THAN 25% OF THE VALUE OF THE PREFERENCE SHARES WOULD BE HELD BY BENEFIT PLAN INVESTORS, DISREGARDING PREFERENCE SHARES HELD BY CONTROLLING PERSONS (THE "25% THRESHOLD").][3]

NO TRANSFER OF A PREFERENCE SHARE (OR ANY INTEREST THEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. PERSON THAT IS NOT (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 OF THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE SUCH QUALIFIED PURCHASERS AND/OR KNOWLEDGEABLE EMPLOYEES (EACH OF (I), (II) AND (III), A "QUALIFIED PURCHASER"), (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER IS MADE TO A BENEFIT PLAN INVESTOR [EXCEPT TO A BENEFIT PLAN INVESTOR

[3] Restricted Definitive Preference Shares only.

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THAT IS AN ORIGINAL PURCHASER WHOSE INVESTMENT IN PREFERENCE SHARES WOULD 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, WILL NOT RESULT IN A VIOLATION OF SUCH LAW OR ANY SUCH SIMILAR LAW) AND ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, THE 25% THRESHOLD WOULD NOT HAVE BEEN EXCEEDED][4] (D) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. PERSON WHICH IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE TRANSFER CERTIFICATE ATTACHED TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT), (E) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A CONTROLLING PERSON [EXCEPT TO A CONTROLLING PERSON THAT IS AN ORIGINAL PURCHASER AND ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, THE 25% THRESHOLD WOULD NOT HAVE BEEN EXCEEDED][5] OR (F) 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 REFERRED TO HEREIN. ACCORDINGLY, AN INVESTOR IN THE PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. EACH HOLDER HEREOF IS DEEMED TO REPRESENT AND WARRANT [(A) IN THE CASE OF AN ORIGINAL PURCHASER, EITHER (I) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS PREFERENCE SHARE OR AN INTEREST HEREIN WILL NOT BE) A BENEFIT PLAN INVESTOR OR (II) ITS HOLDING OF THE PREFERENCE SHARES 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, WILL NOT RESULT IN A VIOLATION OF ANY SUCH SIMILAR LAW) OR (B) OTHERWISE,][6] THAT IT IS NEITHER A BENEFIT PLAN INVESTOR NOR A CONTROLLING PERSON.

THE PREFERENCE SHARES REPRESENTED HEREBY OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED IN AN AMOUNT NOT LESS THAN THE MINIMUM TRADING LOT 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 PREFERENCE SHARE OR AN INTEREST HEREIN (X) IS A U.S. PERSON, (Y) IS NOT BOTH (I) (A) A QUALIFIED INSTITUTIONAL BUYER OR (IN THE CASE OF AN ORIGINAL PURCHASER) AN ACCREDITED INVESTOR OR (B) ENTITLED TO TAKE DELIVERY OF SUCH RESTRICTED DEFINITIVE PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (II) A QUALIFIED PURCHASER AND/OR (Z) IS OR BECOMES A BENEFIT PLAN INVESTOR [AND WAS NOT AN "ORIGINAL PURCHASER" OR DID NOT DISCLOSE IN AN INVESTOR APPLICATION FORM THAT IT WAS A BENEFIT PLAN INVESTOR],[7] THE ISSUER MAY REQUIRE, BY

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5 Restricted Definitive Preference Shares only.

6 Restricted Definitive Preference Shares only.

7 Restricted Definitive Preference Shares only.

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NOTICE TO SUCH HOLDER THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO THIS PREFERENCE SHARE (OR INTEREST HEREIN) TO A PERSON THAT IS (1) (A) A QUALIFIED INSTITUTIONAL BUYER OR (B) ENTITLED TO TAKE DELIVERY OF SUCH RESTRICTED DEFINITIVE PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (2) A QUALIFIED PURCHASER AND (3) NOT A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, 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 ISSUER, THE PREFERENCE SHARE PAYING AGENT SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH HOLDER TO, CAUSE SUCH HOLDER'S INTEREST IN THIS PREFERENCE SHARE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE ARRANGED BY THE ISSUER (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE PREFERENCE SHARE PAYING AGENT AND APPROVED BY THE ISSUER IN ACCORDANCE WITH SECTION 9-610(b) OF THE UCC AS IN EFFECT IN THE STATE OF NEW YORK AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON THAT CERTIFIES TO THE PREFERENCE SHARE PAYING AGENT AND THE ISSUER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON IS (1) (A) A QUALIFIED INSTITUTIONAL BUYER OR (B) ENTITLED TO TAKE DELIVERY OF SUCH RESTRICTED DEFINITIVE PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (2) A QUALIFIED PURCHASER AND (3) NOT A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE INTEREST IN THE PREFERENCE SHARE HELD BY SUCH HOLDER, AND THE INTEREST IN THIS PREFERENCE SHARE 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 Regulation S Global Preference Shares:

UNLESS THIS REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE 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.

THIS REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE REPRESENTS REGULATION S 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

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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 REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE FOR A DEFINITIVE PREFERENCE SHARE CERTIFICATE OR UPON ANY EXCHANGE OR TRANSFER OF A DEFINITIVE PREFERENCE SHARE CERTIFICATE FOR AN INTEREST IN THIS REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE IN ACCORDANCE WITH THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, THIS REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE SHALL BE ENDORSED TO REFLECT THE CHANGE OF THE NUMBER OF PREFERENCE SHARES EVIDENCED HEREBY.

THIS PREFERENCE SHARE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A RESTRICTED DEFINITIVE PREFERENCE SHARE ONLY UPON RECEIPT BY THE ISSUER AND THE PREFERENCE SHARE PAYING AGENT OF A LETTER SUBSTANTIALLY IN THE FORM SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT.

The following shall be inserted in the case of Regulation S Preference Shares:

THIS PREFERENCE SHARE OR ANY BENEFICIAL INTEREST HEREIN MAY NOT BE HELD BY A U.S. PERSON AT ANY TIME.

The following shall be inserted in the case of Restricted Definitive Preference Shares:

THIS PREFERENCE SHARE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE ONLY UPON RECEIPT BY THE ISSUER AND THE PREFERENCE SHARE PAYING AGENT OF A LETTER SUBSTANTIALLY IN THE FORM SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT.

Investor Representations on Resale. Except as provided below, each transferee of an Offered Security will be required to deliver to the Co-Issuers and the Note Registrar or the Preference Share Paying Agent, as the case may be, a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture or the Preference Share Paying Agency Agreement, as the case may be, and such other certificates and other information as the Issuer, the Co-Issuer, 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 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 (1) such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and such transfer is effected through Euroclear or Clearstream, Luxembourg in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures and (2) any transfer not effected in an offshore transaction in accordance with Rule 904 of Regulation S may be made only upon provision to the Note Registrar of written certification from the transferee and transferor in the form provided for in the Indenture. An owner of a beneficial interest in a Regulation S Global Preference Share may transfer such interest in the form of a beneficial interest in such Regulation S Global Preference Share only if the transferee executes and delivers to the Issuer, the Collateral Manager and the Preference Share Paying Agent a letter in the form attached as Exhibit A hereto. An owner of a beneficial interest in a Restricted Global Note may transfer

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

Each transferee of a beneficial interest in a Regulation S Global Note, Restricted Global Note or Regulation S Global Preference Share will be deemed to make the same representations and warranties at the time of purchase that a transferee of a Note or Preference Share subject to equivalent transfer restrictions that is required to deliver a transfer certificate would be required to make pursuant to such transferee certificate.

Each transferee of an Offered Security that is required to deliver a transfer certificate will be required, pursuant to such transferee certificate, and each transferee who is not required to deliver a certificate will be deemed (a) to acknowledge, represent and warrant to and agree with the Issuer and the Trustee as to the matters set forth in each of paragraphs (1) through (17) above (other than paragraph (6) above) as if each reference therein to "the purchaser" were instead a reference to the transferee and (b) to further represent and warrant to and agree with the Co-Issuers and the Trustee (in the case of a Note) or the Preference Share Paying Agent (in the case of a Preference Share) as follows:

(1) In the case of a transferee who takes delivery of a beneficial interest in a Restricted Global Note, it (i) is a Qualified Institutional Buyer and also 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) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee; and (v) is acquiring such Offered Securities for its own account. In the case of a transferee who takes delivery of a Restricted Definitive Preference Share, unless such transfer is effected in accordance with another exemption from the registration requirements of the Securities Act (and such certifications, legal opinions or other information as the Issuer has reasonably required 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 have been delivered), it is a Qualified Institutional Buyer purchasing for its own account. In the case of a transferee who takes delivery of Regulation S Notes or Regulation S Preference Shares, it (i) is acquiring such Notes or Preference Shares in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; (ii) is acquiring such Notes or Preference Shares for its own account; (iii) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Notes or Preference Shares while it is in the United States or any of its territories or possessions; (iv) understands that such Notes and 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; (v) understands that such Notes or 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; (vi) in the case of a transferee of a Regulation S Note, understands that interests in a Regulation S Global Note may only be held through Euroclear or Clearstream, Luxembourg; and (vii) in the case of a transferee of a Regulation S Preference Share, understands that an interest in a Regulation S Global Preference Share may only be held through Euroclear or Clearstream, Luxembourg and that such interest may not be held by or transferred to a Benefit Plan Investor. In addition, each Preference Shareholder must provide the Issuer and the Share Registrar an executed letter in the appropriate form attached to the Preference Share Paying and Transfer Agency Agreement or, in the case of a holder of an

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interest in a Regulation S Global Preference Share, must execute and deliver a letter in the form attached as Exhibit A hereof.

(2) It acknowledges that the foregoing acknowledgements, representations, warranties and agreements will be relied upon by the Issuer and the Trustee (in the case of a Note) or the Preference Share Paying Agent (in the case of a Preference Share) for the purpose of determining its eligibility to purchase Offered Securities. It agrees to provide, if requested, any additional information that may be required to substantiate its status as a Qualified Institutional Buyer or under the exception provided pursuant to Section 3(c)(7) of the Investment Company Act and Rule 3c-5 promulgated under the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine its eligibility to purchase Offered Securities.

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LISTING AND GENERAL INFORMATION

1. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the Daily Official List. No assurances can be given that any such listing will be obtained with respect to the Notes. No application will be or will be made to list the Notes or the Preference Shares on any other stock exchange. In connection with the listing of the Notes on the Irish Stock Exchange, the Offering Circular will be filed with the Register of Companies of Ireland pursuant to Regulation 13(1) of the European Communities (Stock Exchange) Regulations, 1984 of Ireland.

Application will be made to admit the Preference Shares to the Official List of the Channel Islands Stock Exchange. If the Preference Shares are listed on the CISX, the Issuer may at any time terminate the listing of the Preference Shares if the Issuer determines that, as a result of the a change in the requirements of the CISX, the maintenance of such listing would impose any material obligation or expense on the Issuer (in excess of the amount anticipated on the Closing Date). No application will be made to list the Preference Shares on any other stock exchange.

2. For fourteen days following the date of this Offering Circular, copies of the Issuer Charter and the Limited Liability Company Agreement of the Co-Issuer, this Offering Circular, the Indenture, the Collateral Management Agreement, the initial Hedge Agreement, the Class A-1 Note Purchase Agreement, the Preference Share Paying Agency Agreement, the Administration Agreement, the Paying Agency Agreement for Ireland (such agreements, collectively, the "Material Contracts") and a description of the Collateral will be available for inspection and will be obtainable at the offices of the Irish Paying Agent in Dublin, Ireland and at the registered office of the Issuer, where copies thereof may be obtained upon request.

3. If and for so long as any Class of Notes is listed on the Irish Stock Exchange, copies of the Material Contracts, the Issuer Charter, the Certificate of Incorporation of the Issuer, the Limited Liability Company Agreement of the Co-Issuer, the resolutions of the board of directors of the Issuer authorizing the issuance of the Notes and the resolutions of the sole member of the Co-Issuer authorizing the issuance of the Notes will be available for inspection during the terms of the Notes at the office of the Trustee. Any documents incorporated by reference into this Offering Circular will not form part of the Listing Particulars (the "Listing Particulars") approved by the Irish Stock Exchange for the purpose of this application. The Issuer is not required by the laws of Cayman Islands, and the Issuer does not intend, to publish annual reports and accounts. The Co-Issuer is not required by 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 notice, on an annual basis, that to the best of its knowledge, following review of the activities in 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, specifying the same.

4. Each of the Co-Issuers will represent that, as of the date of this Offering Circular, there has been no material adverse change in its financial position since the date of its creation. Neither of the Co-Issuers is involved, or has been involved since its organization, in any litigation or arbitration proceedings relating to claims on amounts which may have or have had a material effect on the Co-Issuers in the context of the issuance of the Offered Securities, nor, so far as such Co-Issuer is aware, is any such litigation or arbitration involving it pending or threatened.

5. The issuance of the Notes will be authorized by the board of directors of the Issuer by resolutions passed on or prior to the Closing Date. The issuance of the Notes will be authorized by the sole member of the Co-Issuer by resolutions passed on or prior to the Closing Date. Since its organization, neither the Issuer nor the Co-Issuer has commenced trading, established any accounts or

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declared any dividends, except for the transactions described herein relating to the issuance of the Offered Securities.

6. The Securities sold in offshore transactions in reliance on Regulation S under the Securities Act and represented by Global Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear under the Common Codes set forth below. The CUSIP (CINS) Numbers and International Securities Identification Numbers (ISIN) for each Class of Securities are as set forth in the table below:

	Regulation S Common Codes	Regulation S Global Note CUSIP Numbers	Restricted Global Note CUSIP Numbers	Regulation S International Securities Identification Numbers
Class A-1 Notes funded on Closing Date	022090224	G5295RA A4	498587 AA2	USG5295RAA44
Class A-2 Notes	022090305	G5295RA C0	498587 AC8	USG5295RAC00
Class B Notes	022090399	G5295RA D8	498587 AD6	USG5295RAD82
Class C Notes	022090437	G5295RA E6	498587 AE4	USG5295RAE65
Class D Notes	022090470	G5295RA F3	498587 AF1	USG5295RAF31

7. Preference Shares sold in offshore transactions in reliance on Regulation S and represented by Regulation S Global Preference Shares have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The table below lists the CUSIP (CINS) Numbers and the International Securities Identification Numbers (ISIN) for the Global Preference Shares:

	Regulation S Common Codes	Regulation S Global Note CUSIP Numbers	Restricted Global Note CUSIP Numbers	Regulation S International Securities Identification Numbers
Preference Shares	022090747	G52954107	498585207	KYG529541073

LEGAL MATTERS

Certain legal matters with respect to New York law will be passed upon for the Issuer by Schulte Roth & Zabel LLP, New York, New York. Schulte Roth & Zabel LLP also acts as counsel to the Initial Purchaser. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Walkers. Certain legal matters with respect to the Collateral Manager will be passed upon by Weil, Gotshal & Manges LLP, New York, New York.

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SCHEDULE A

Part I
Moody's Recovery Rate 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%	85%	80%	70%	60%	50%	40%
Less than or equal to 70%, but greater than 10%	75%	70%	60%	50%	40%	30%
Less than or equal to 10%	70%	65%	55%	45%	35%	25%

B. ABS Type Residential Securities

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	65%	55%	45%	30%
Less than or equal to 70%, but greater than 10%	75%	70%	55%	45%	35%	25%
Less than or equal to 10%, but greater than 5%	65%	55%	45%	40%	30%	20%
Less than or equal to 5%, but greater than 2%	55%	45%	40%	35%	25%	15%
Less than or equal to 2%	45%	35%	30%	25%	15%	10%

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C. ABS Type Undiversified Securities

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	65%	55%	45%	30%
Less than or equal to 70%, but greater than 10%	75%	70%	55%	45%*	35%	25%
Less than or equal to 10%, but greater than 5%	65%	55%	45%	35%	25%	15%
Less than or equal to 5%, but greater than 2%	55%	45%	35%	30%	20%	10%
Less than or equal to 2%	45%	35%	25%	20%	10%	5%

D. Low-Diversity CDO Securities

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	80%	75%	60%	50%	45%	30%
Less than or equal to 70%, but greater than 10%	70%	60%	55%	45%	35%	25%
Less than or equal to 10%, but greater than 5%	60%	50%	45%	35%	25%	15%
Less than or equal to 5%, but greater than 2%	50%	40%	35%	30%	20%	10%
Less than or equal to 2%	30%	25%	20%	15%	7%	6%

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E. High Diversity CDO Securities

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	65%	55%	45%	30%
Less than or equal to 70%, but greater than 10%	75%	70%	60%	50%	40%	25%
Less than or equal to 10%, but greater than 5%	65%	55%	50%	40%	30%	20%
Less than or equal to 5%, but greater than 2%	55%	45%	40%	35%	25%	10%
Less than or equal to 2%	45%	35%	30%	25%	10%	5%

* The rating assigned by Moody's on the closing date for such Collateral Debt Security.

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Part II

Standard & Poor's Recovery Rate Matrix

A. If the Collateral Debt Security (other than a Synthetic Security, an ABS REIT Debt Security, a Project Finance Security, a future flow security, a market value CDO Security or a Corporate Guaranteed Security) is the senior-most tranche of securities issued by the issuer of such Collateral Debt Security the recovery rate is as follows:*

Standard & Poor's Rating of Collateral Debt Security	Recovery Rate by Rating of Notes						
	AAA	AA	A	BBB	BB	B	CCC
"AAA"	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
"AA-," "AA" or "AA+"	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
"A-," "A" or "A+"	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
"BBB-," "BBB" or "BBB+"	50.0%	55.0%	65.0%	75.0%	85.0%	85.0%	85.0%

B. If the Collateral Debt Security (other than a Synthetic Security, an ABS REIT Debt Security, a Project Finance Security, a future flow security, a market value CDO Security or a Corporate Guaranteed Security) is not the senior-most tranche of securities issued by the issuer of such Collateral Debt Security the recovery rate is as follows:*

Standard & Poor's Rating of Collateral Debt Security	Recovery Rate by Rating of Notes						
	AAA	AA	A	BBB	BB	B	CCC
"AAA"	65.0%	70.0%	80.0%	85.0%	85.0%	85.0%	85.0%
"AA-," "AA" or "AA+"	55.0%	65.0%	75.0%	80.0%	80.0%	80.0%	80.0%
"A-," "A" or "A+"	40.0%	45.0%	55.0%	65.0%	80.0%	80.0%	80.0%
"BBB-," "BBB" or "BBB+"	30.0%	35.0%	40.0%	45.0%	50.0%	60.0%	70.0%
"BB-," "BB" or "BB+"	10.0%	10.0%	10.0%	25.0%	35.0%	40.0%	50.0%
"B-," "B" or "B+"	2.5%	5.0%	5.0%	10.0%	10.0%	20.0%	25.0%
"CCC+" and below	0.0%	0.0%	0.0%	0.0%	2.5%	5.0%	5.0%

C. If the Collateral Debt Security is a Project Finance Security, a future flow security, a market value CDO Security or 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 (other than a Corporate Guaranteed Security) is an ABS REIT Debt Security, the recovery rate for senior debt will be 40% and, for subordinated debt, assigned by Standard & Poor's upon the acquisition of such security by the Issuer.

*If the Collateral Debt Security is a Corporate Guaranteed Security, the recovery rate will be (a) if such Corporate Guaranteed Security is secured and not by its terms subordinate in right of payment, 47.5%, (b)

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if such Corporate Guaranteed Security is not secured and is not by its terms subordinate in right of payment, 37% and (c) otherwise, 21.5%.

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Part III

Fitch Recovery Rate Matrix

With respect to any Defaulted Security or Deferred Interest PIK Bond on any Measurement Date, an amount equal to the percentage corresponding to the domicile and seniority (as applicable) of such Defaulted Security or Deferred Interest PIK Bond as set forth in the table below; provided that, the applicable percentage shall be the percentage corresponding to the rating of the most senior outstanding class of Notes then rated by Fitch.

		Rating of Liability					
Domicile	**Seniority**	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**
SF Senior AAA		80%	83%	86%	89%	92%	95%
SF Non Sr AAA		65%	70%	75%	80%	85%	90%
SF AA Senior		65%	69%	73%	77%	81%	85%
SF AA Non Sr (>10%)		50%	56%	62%	68%	74%	80%
SF AA Non Sr (5-10%)		45%	51%	57%	63%	69%	75%
SF AA Non Sr (0-5%)		40%	46%	52%	58%	64%	70%
SF Senior A		60%	64%	68%	72%	76%	80%
SF A Non Sr (>10%)		40%	47%	54%	61%	68%	75%
SF A Non Sr (5-10%)		35%	42%	48%	55%	61%	68%
SF A Non Sr (0-5%)		30%	36%	42%	48%	54%	60%
SF Senior BBB		55%	59%	63%	67%	71%	75%
SF BBB Non Sr (>10%)		30%	38%	46%	54%	62%	70%
SF BBB Non Sr (5-10%)		25%	33%	41%	48%	56%	63%
SF BBB Non Sr (0-5%)		20%	27%	35%	42%	50%	55%
SF Senior BB		50%	54%	58%	62%	66%	70%
SF BB Non Sr (>10%)		15%	19%	23%	27%	32%	35%
SF BB Non Sr (5-10%)		10%	14%	18%	22%	27%	30%
SF BB Non Sr (0-5%)		5%	9%	13%	17%	21%	25%
SF B Non Sr (>10%)		12%	16%	20%	24%	28%	32%
SF B Non Sr (5-10%)		8%	11%	15%	19%	23%	27%
SF B Non Sr (0-5%)		3%	7%	11%	14%	18%	22%
SF < B		0%	4%	8%	12%	16%	20%
United States	Sovereign	20%	21%	23%	24%	24%	25%
United States	REITS	52%	55%	59%	62%	63%	65%
United States	Senior Secured	56%	62%	67%	72%	76%	80%
United States	Second Lien (Non IG)	46%	49%	52%	55%	56%	58%
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%

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SCHEDULE B – FITCH DEFINITIONS

"Fitch Weighted Average Rating Factor" means, as of any Measurement Date, 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 Bond 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 Deferred Interest PIK Bond by multiplying (1) the Applicable Recovery Rate for such Deferred Interest PIK Bond by (2) the Principal Balance on such Measurement Date of each such Deferred Interest PIK Bond but not including any deferred interest 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 Bonds plus (b) the summation of the series of products obtained by multiplying (1) the Applicable Recovery Rate for each Deferred Interest PIK Bond by (2) the Principal Balance on such Measurement Date of such Deferred Interest PIK Bond, but not including any deferred interest, and rounding the result up to the nearest hundredth.

"Fitch Rating Factor" means, with respect to any Collateral Debt Security or Eligible Investment on any Measurement Date, the number set forth in the table below opposite the Fitch Rating of such Collateral Debt Security or Eligible Investment. In the case of any Eligible Investment that does not have a long-term Fitch Rating, the Fitch Rating for purposes of determining its Fitch Rating Factor shall be deemed to be (a) in the case of cash, "AAA" or (b) in the case of any other Eligible Investment, the Fitch Rating Factor associated with the minimum acceptable long-term rating on that type of Eligible Investment.

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
BB+	10.18		

Fitch Rating

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

(a) if such Collateral Debt Security is rated by Fitch, the Fitch Rating will be such rating;

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(b) if such Collateral Debt Security is not rated by Fitch and a rating is published by both Moody's and Standard & Poor's, the Fitch Rating will be the lower of such equivalent ratings;

(c) if such Collateral Debt Security is not rated by Fitch and a rating is published by only one of Standard & Poor's and Moody's, the Fitch Rating will be the equivalent rating published by Standard & Poor's or Moody's, as the case may be; and

(d) in all other circumstances, the Fitch Rating will be the private rating assigned by Fitch upon request of the Issuer;

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 (b) or (c) above will 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 (b) or (c) above will 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.

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Fitch Industry and Sub-Industry Classifications[2]

Each Collateral Debt Security is assigned one of seven industries: CMBS, RMBS, Real Estate, CDO, Consumer ABS, Commercial ABS, and Corporate.

In addition, each Collateral Debt Security is assigned a sub-industry. The following includes the industries and sub-industries which may be assigned to each Collateral Debt Security:

CMBS	**Commercial ABS**	**CDO**	**Corporate**
Large Loan	Equipment Leases	High Yield Bond	Aerospace & Defense
Conduit	Franchise Loans	High Yield Loan	Automobiles
CTL's	Aircraft Loans/Leases	SME/MiddleMarket	Banking & Finance
RMBS	Dealer Floorplan	IGCorp	Broadcasting/Media/Cable
Prime	UtilityStrandedCosts	SF-Diverse	Building & Materials
Subprime	Weather Bonds	SF-Real Estate	Business Services
MFH	Small Business Loans	MarketValue	Chemicals
Consumer ABS	Taxi Medallion	**REIT**	Computers & Electronics
CC	Rail Car	Healthcare	Consumer Products
Auto Prime	Intellectual Property	Retail	Energy
AutoSubPrime	Stadium Financing	Hotels	Food, Beverage & Tobacco
Consumer Loans	Agriculture Loans	Apartments	Gaming, Leisure & Entertainment
Student Loans	Healthcare Receivables	Industrial/Office	Health Care & Pharmaceuticals
ChargedOffCC	Rental Fleet	Diversified	Industrial/Manufacturing
Motorcycles	Structured Settlements		Lodging & Restaurants
Timeshare	12B1Fees		Metals & Mining
RV/Boats	Other		Packaging & Containers
			Paper & Forest Products
			Real Estate
			Retail (General)
			Supermarkets & Drugstores
			Telecommunications
			Textiles & Furniture
			Transportation
			Utilities

Note: Deals guaranteed by an insurer/guarantor should be categorized under Banking & Finance for purposes of Fitch Industry. Sovereigns should also be categorized under Banking & Finance for purposes of Fitch Industry.

LTV = Loan to value ratio. RV = Recreational vehicle.

[2] Fitch Assigned Subsector definitions are subject to reasonable determination and interpretation by the Collateral Manager.

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SCHEDULE C – COLLATERAL DEBT SECURITIES AS OF June 1, 2005

No.	Collateral Debt Security	Cusip	Issuer	Par Amount	Coupon / Spread	Maturity	Moodys Rating	S&P Rating	Fitch Rating
1	U.S. Capital Funding I, Ltd.	903329AC4	U.S. Capital	4,000,000.00	0.88%	5/1/2034	Aaa	AAA	AAA
2	MUZ2 1X A1		MUZ2 1X	9,950,448.69	1.01%	10/15/2013	Aa1	AA+	
3	MLMI 2004-WMC5 M1	59020UMF9	MLMI 2004-WMC5	2,500,000.00	0.62%	7/25/2035	Aa1	AA+	
4	MLMI 2004-WMC5 A2B3	59020UME2	MLMI 2004-WMC5	4,000,000.00	0.55%	7/25/2035	Aaa	AAA	
5	AMSI 2004-R11 M1	03072SWQ4	AMSI 2004-R11	4,000,000.00	0.66%	11/25/2034	Aa1	AA+	AA+
6	MSAC 2004-NC8 M1	61744CHP4	MSAC 2004-NC8	3,000,000.00	0.61%	9/25/2034	Aa1	AA+	AA+
7	BALB 2001-1A A	05765TAA8	BALB 2001-1A	5,000,000.00	0.41%	7/15/2014	Aaa	AAA	
8	RAMP 2004-RS10 MII1	76112BEC0	RAMP 2004-RS10	2,000,000.00	0.66%	10/25/2034	Aa2	AA	
9	CWL 2004-11 M1	126673LR1	CWL 2004-11	4,000,000.00	0.70%	3/25/2035		AA+	AA+
10	GSCCDO 1B-A	362268AB0	GSCCDO 7.791	10,000,000.00	7.79%	5/9/2012	Aaa	AAA	
11	HARV2 2X B	BCC03QP77	HARV2 2X	8,698,683.16	0.80%	8/7/2012	Aa3	AA	
12	BALTA 2004-11 1M1	07386HMR9	BALTA 2004-11	4,775,000.00	0.60%	11/25/2034	Aa2	AA	
13	ABSHE 2004-HE9 M1	04541GNA6	ABSHE 2004-HE9	5,000,000.00	0.65%	12/25/2034	Aa2	AA	
14	Forte CDO Ltd.	34954RAA3	FORTE	7,579,946.34	0.46%	4/12/2013	Aaa	AAA	
15	CBASS 2004-CB7 AV2C	17307GLH9	CBASS 2004-CB7	2,000,000.00	0.52%	10/25/2034	Aaa	AAA	AAA
16	PPSI 2004-WWF1 M1	70069FDJ3	PPSI 2004-WWF1	3,000,000.00	0.63%	1/25/2035	Aa1	AA+	AA+
17	PPSI 2004-WWF1 M2	70069FDK0	PPSI 2004-WWF1	1,000,000.00	0.68%	1/25/2035	Aa2	AA	AA
18	NHEL 2004-4 M3	66987WBV8	NHEL 2004-4	5,000,000.00	0.72%	3/25/2035	Aa3	AA	AA
19	SOLST 2003-3A A2	83436YAB1	SOLST 2003-3A	2,000,000.00	1.10%	9/15/2033	Aaa	AAA	AAA
20	TROPC 2004-4A A3L	89707YAC8	TROPC 2004-4A	5,000,000.00	1.00%	4/15/2035	Aa1	AA-	AA+
21	MSAC 2004-OP1 M3	61744CJF4	MSAC 2004-OP1	3,000,000.00	0.68%	11/25/2034	Aa3	AA-	AA-
22	MLMI 2004-WMC4 A2B3	59020UDC6	MLMI 2004-WMC4	152,000.00	0.49%	4/25/2035	Aaa	AAA	
23	SURF 2004-BC4 M1	84751PEC9	SURF 2004-BC4	3,500,000.00	0.80%	10/25/2035		AA+	AA
24	CWL 2004-6 M3	126673BE1	CWL 2004-6	7,000,000.00	0.70%	9/25/2034	Aa3	AA+	
25	CFLAT 2004-OPT1 M1	161542DZ5	CFLAT 2004-OPT1	3,000,000.00	0.57%	6/25/2034	Aa2	AA	
26	MSAC 2004-HE9 M3	61744CJV9	MSAC 2004-HE9	3,000,000.00	0.68%	11/25/2034	Aa3	AA-	AA-
27	HEAT 2004-8 M3	437084GT7	HEAT 2004-8	1,500,000.00	0.68%	3/25/2035	Aa3	AA	AA-
28	MSAC 2004-HE9 M1	61744CJT4	MSAC 2004-HE9	2,000,000.00	0.59%	11/25/2034	Aa1	AA+	AA+
29	ACCR 2004-4 M3	004375CJ8	ACCR 2004-4	3,349,000.00	1.25%	1/25/2035	A3	A	
30	SAIL 2004-10 M1	86358EPC4	SAIL 2004-10	10,000,000.00	0.85%	11/25/2034		AA+	
31	PRETSL 2.99 03/34	74041AAC7	PRETSL 2.99	3,000,000.00	2.99%	3/24/2034	Aaa	AAA	AAA

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32	CWL 2004-12 MV3	126673NV0	CWL 2004-12	3,000,000.00	0.66%	3/25/2035	Aa3	AA-	
33	TABS 2004-1A B	87337PAE5	TABS 2004-1A	5,000,000.00	0.85%	11/9/2041	Aa2	AA	
34	PPSI 2004-MHQ1 M6	70069FDA2	PPSI 2004-MHQ1	10,000,000.00	1.40%	12/25/2034	A3	A-	A-
35	FHLT 2004-D M1	35729PGC8	FHLT 2004-D	3,000,000.00	0.58%	11/25/2034	Aa1	AA+	
36	PPSI 2004-WHQ2 M3	70069FEK9	PPSI 2004-WHQ2	3,000,000.00	0.69%	2/25/2035	Aa3	AA-	AA-
37	AMSI 2004-R12 M1	03072SXD2	AMSI 2004-R12	5,000,000.00	0.57%	1/25/2035	Aa1	AA+	AA+
38	FHLT 2004-3 M4	35729PFP0	FHLT 2004-3	3,248,000.00	1.05%	11/25/2034		AA+	
39	RAMP 2004-RS11 M1	76112BFH8	RAMP 2004-RS11	4,000,000.00	0.62%	11/25/2034	Aa1	AA	
40	ICM 2004-1A A2	464266AC9	ICM 2004-1A	10,000,000.00	0.55%	1/5/2040	Aaa	AAA	AAA
41	MABS 2004-WMC3 M3	57643LFQ4	MABS 2004-WMC3	2,252,000.00	0.64%	10/25/2034	Aa3	AA-	
42	INDE2 2A A	45344QAA0	INDE2 2A	7,905,367.68	0.47%	8/7/2036	Aaa	AA	AA-
43	MGATE 2004-1A A1J	56659NAB1	MGATE 2004-1A	9,000,000.00	0.60%	12/4/2044	Aaa	AAA	
44	FHLT 2004-4 M3	35729PGV6	FHLT 2004-4	4,525,000.00	0.61%	3/25/2035	Aa3	AA-	
45	ICONS 2004-1A CPT2	45104SAH1	ICONS 2004-1A	10,000,000.00	0.88%	9/10/2034	Aa1		
46	CWL 2004-6 M3	126673BE1	CWL 2004-6	3,000,000.00	0.70%	9/25/2034	Aa3	AA+	
47	CWL 2004-BC5 M5	126673PS5	CWL 2004-BC5	1,418,000.00	1.00%	10/25/2034	A2	A+	
48	CWL 2004-BC5 M6	126673PT3	CWL 2004-BC5	2,250,000.00	1.10%	10/25/2034	A3	A-	
49	SAIL 2004-BNC2 M2	86358ENK8	SAIL 2004-BNC2	10,000,000.00	1.15%	12/25/2034		AA	
50	CWL 2004-AB2 M2	126673QG0	CWL 2004-AB2	4,000,000.00	0.57%	5/25/2036	Aa2	AA+	
51	IMSA 2004-4 M1	45254TQS6	IMSA 2004-4	2,000,000.00	0.51%	2/25/2035	Aa1	AA+	
52	IMSA 2004-4 M2	45254TQT4	IMSA 2004-4	2,000,000.00	0.54%	2/25/2035	Aa2	AA+	
53	LBMLT 2005-1 M1	542514JZ8	LBMLT 2005-1	5,000,000.00	0.50%	2/25/2035	Aa1	AA+	AA+
54	NCHET 2004-4 M1	64352VJJ1	NCHET 2004-4	4,000,000.00	0.51%	2/25/2035	Aa1	AA+	
55	DUNHL 2004-1A B	26545QAG4	DUNHL 2004-1A	5,000,000.00	0.85%	1/4/2041	Aa2	AA	AA
56	SVHE 2004-WMC1 M2	83611MBW7	SVHE 2004-WMC1	2,410,000.00	0.53%	1/25/2035	Aa2	AA	
57	SVHE 2004-WMC1 M3	83611MBX5	SVHE 2004-WMC1	2,104,000.00	0.57%	1/25/2035	Aa3	AA	
58	CWL 2004-14 M4	126673SV5	CWL 2004-14	10,000,000.00	0.95%	6/25/2035		AA	
59	RAMP 2004-RS12 MII1	76112BGC8	RAMP 2004-RS12	5,000,000.00	0.57%	12/25/2034	Aa1	AA	
60	SAIL 2004-7 A8	86358EKJ4	SAIL 2004-7	5,197,000.00	0.60%	8/25/2034		AAA	AAA
61	RASC 2004-KS12 M1	76110WK88	RASC 2004-KS12	3,000,000.00	0.53%	1/25/2035	Aa2	AA	AA
62	CBASS 2004-CB8 M1	59020UPR0	CBASS 2004-CB8	6,000,000.00	0.53%	12/25/2035	Aa2	AA	AA
63	CWL 2004-15 MV1	126673UM2	CWL 2004-15	3,000,000.00	0.51%	5/25/2035	Aa1	AA+	
64	ABSHE 2005-HE1 M1	04541GPH9	ABSHE 2005-HE1	5,000,000.00	0.50%	3/25/2035	Aa1	AA+	AA+
65	AHM 2004-4 M1	02660TCH4	AHM 2004-4	3,000,000.00	0.55%	2/25/2045	Aa2	AA	
66	PCHLT 2005-1 M1	71085PBK8	PCHLT 2005-1	5,000,000.00	0.53%	1/25/2035	Aa1	AA+	
67	CXHE 2005-A M1	152314MH0	CXHE 2005-A	1,500,000.00	0.48%	1/25/2035	Aa1	AA+	AA+

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68	OOMLT 2005-1 M1	68389FGK4	OOMLT 2005-1	2,000,000.00	0.52%	2/25/2035		AA+	AA+
69	MABS 2005-NC1 M2	57643LGG5	MABS 2005-NC1	1,000,000.00	0.50%	12/25/2034	Aa2	AA	AA
70	MABS 2005-NC1 M3	57643LGH3	MABS 2005-NC1	3,000,000.00	0.55%	12/25/2034	Aa3	AA-	AA-
71	PPSI 2005-WCH1 M6	70069FFN2	PPSI 2005-WCH1	1,000,000.00	0.98%	1/25/2036	A3	A-	A
72	AMSI 2004-R7 M7	03072STN5	AMSI 2004-R7	5,000,000.00	1.70%	8/25/2034	A3	A	A
73	AHM 2004-4 M1	02660TCH4	AHM 2004-4	4,000,000.00	0.55%	2/25/2045	Aa2	AA	
74	RASC 2005-KS1 M1	76110WM37	RASC 2005-KS1	1,500,000.00	0.45%	2/25/2035	Aa2	AA	AA+
75	SAST 2005-1 M1	805564RM5	SAST 2005-1	1,500,000.00	0.46%	5/25/2035	Aa1	AA+	AA+
76	SAST 2005-1 M2	805564RN3	SAST 2005-1	2,000,000.00	0.48%	5/25/2035	Aa2	AA	AA
77	POPLR 2005-1 M1	73316PBS8	POPLR 2005-1	5,000,000.00	5.16%	5/25/2035	Aa2	AA	AA
78	SASC 2005-WF1 M1	86359BV73	SASC 2005-WF1	2,000,000.00	0.44%	2/25/2035	Aa1	AA+	AA+
79	GALLA 5A A1	073605AA5	GALLA 5A	10,000,000.00	0.52%	9/19/2037	Aaa	AAA	
80	DASH2 1A A1L	25513TAA1	DASH2 1A	7,065,665.40	0.49%	9/15/2035	Aaa	AA	AAA
81	SAIL 2005-1 M1	86358EQH2	SAIL 2005-1	3,000,000.00	0.47%	2/25/2035	Aa1	AA+	AA+
82	MMLT 2005-1 M1	59001FBX8	MMLT 2005-1	3,000,000.00	0.47%	5/25/2035	Aa1	AA+	
83	MLMI 2005-WMC1 M1	59020UQV0	MLMI 2005-WMC1	4,000,000.00	0.50%	9/25/2035	Aa2	AA	
84	SASC 2005-GEL1 M1	86359BW98	SASC 2005-GEL1	1,500,000.00	0.55%	12/25/2034	Aa2	AA	AA
85	COMMO 2005-3A A2	202648AC5	COMMO 2005-3A	2,000,000.00	0.50%	3/6/2040	Aaa	AAA	AAA
86	AMSI 2005-R1 M2	03072SXZ3	AMSI 2005-R1	4,000,000.00	0.48%	3/25/2035	Aa2	AA-	AA
87	SASC 2005-NC1 M1	86359BY96	SASC 2005-NC1	3,122,000.00	0.47%	2/25/2035	Aa1	AA+	AA+
88	SAIL 2004-7 M2	86358EKM7	SAIL 2004-7	4,000,000.00	0.75%	8/25/2034		AA	AA
89	FFML 2004-FFC M1	32027NPT2	FFML 2004-FFC	5,000,000.00	0.50%	6/25/2035	Aa2	AA	
90	ACE 2005-HE1 M1	004421KU6	ACE 2005-HE1	4,000,000.00	0.48%	2/25/2035	Aa1	AA+	
91	LBMLT 2004-6 M1	542514JM7	LBMLT 2004-6	8,000,000.00	0.80%	11/25/2034		AA+	
92	OPMAC 2005-1 M1	68383NAF0	OPMAC 2005-1	3,059,000.00	0.47%	2/25/2035	Aa1	AA+	
93	MLMI 2005-NC1 M1	59020URP2	MLMI 2005-NC1	2,000,000.00	0.48%	10/25/2035	Aa2	AA	
94	CARR 2005-NC1 M1	144531BB5	CARR 2005-NC1	3,000,000.00	0.49%	1/25/2035	Aa1	AA	AA+
95	BSABS 2005-SD1 1M1	073877AD4	BSABS 2005-SD1	5,000,000.00	0.50%	8/25/2043	Aa2	AA	AA
96	FFML 2005-FF1 M1	32027NQL8	FFML 2005-FF1	4,000,000.00	0.49%	12/25/2034	Aa2	AA	AA+
97	OWNIT 2005-1 M1	59020USE6	OWNIT 2005-1	4,000,000.00	0.50%	9/25/2035	Aa2	AA+	
98	FMIC 2005-1 M1	31659TDA0	FMIC 2005-1	2,375,000.00	0.46%	3/25/2035	Aa1	AA+	AA+
99	MSAC 2005-NC1 M1	61744CMK9	MSAC 2005-NC1	3,000,000.00	0.44%	1/25/2035	Aa1	AA	AA+
100	CWALT 2005-3CB M	12667FY82	CWALT 2005-3CB	4,974,516.33	5.46%	3/25/2035	Aa3	AA	
101	BSABS 2005-HE2 M1	073879QZ4	BSABS 2005-HE2	3,000,000.00	0.50%	2/25/2035	Aa2	AA	
102	NHEL 2005-1 M1	66987XGE9	NHEL 2005-1	5,000,000.00	0.45%	6/25/2035	Aa1	AA+	AA+
103	PPSI 2005-WHQ1 M2	70069FGB7	PPSI 2005-WHQ1	2,000,000.00	0.50%	3/25/2035	Aa2	AA	AA

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104	SURF 2005-BC1 M1	84751PER6	SURF 2005-BC1	3,000,000.00	0.47%	12/25/2035	Aa1	AA+	
105	NCHET 2005-1 M1	64352VKA8	NCHET 2005-1	3,000,000.00	0.45%	3/25/2035	Aa1	AA	AA+
106	BAFC 2004-5 1A1	05946XNN9	BAFC 2004-5	2,985,000.00	5.25%	12/20/2034		AAA	AAA
107	DASH3 1A A2	25513SAB1	DASH3 1A	9,405,031.97	7.42%	7/5/2036	Aa3	AA	AA
108	GMACM 2004-J6 2A7	36185N6K1	GMACM 2004-J6	2,233,000.00	5.50%	2/25/2035	Aa1		AAA
109	ACCR 2005-1 M2	004375CU3	ACCR 2005-1	2,000,000.00	0.69%	4/25/2035	A1	A+	
110	SAIL 2005-2 M1	86358ERA6	SAIL 2005-2	3,000,000.00	0.45%	3/25/2035	Aa1	AA+	AA+
111	SVHE 2005-1 M1	83611MCM8	SVHE 2005-1	3,900,000.00	0.47%	4/25/2035	Aa1	AA+	AA+
112	SAST 2004-2 MV3	805564QM6	SAST 2004-2	4,000,000.00	1.27%	8/25/2035	A3	A	
113	ACE 2005-RM1 M1	004421LL5	ACE 2005-RM1	2,000,000.00	0.46%	3/25/2035	Aa1	AA+	AA+
114	FFML 2004-FF11 M2	32027NMY4	FFML 2004-FF11	1,000,000.00	0.55%	1/25/2035	Aa2	AA+	AA+
115	AMSI 2005-R2 M1	03072SYR0	AMSI 2005-R2	2,000,000.00	0.45%	4/25/2035	Aa1	AA+	AA+
116	CMLTI 2005-WF1 M1	17307GPG7	CMLTI 2005-WF1	3,000,000.00	5.33%	2/25/2035	Aa2	AA	
117	MMLT 2005-1 M4	59001FCA7	MMLT 2005-1	5,000,000.00	0.75%	5/25/2035	A1	AA	
118	HEAT 2005-2 M1	437084JQ0	HEAT 2005-2	2,000,000.00	0.45%	7/25/2035	Aa1	AA+	AA+
119	FHLT 2005-1 M1	35729PJB7	FHLT 2005-1	4,000,000.00	0.45%	6/25/2035	Aa1	AA+	AA+
120	INABS 2005-A M1	43708AAR3	INABS 2005-A	3,000,000.00	0.47%	3/25/2035	Aa1	AA+	AA+
121	SABR 2005-OP1 M2	81375WCT1	SABR 2005-OP1	2,000,000.00	0.45%	1/25/2035	Aa2	AA	AA
122	MSM 2005-1 1A4	61748HHV6	MSM 2005-1	1,700,000.00	5.25%	3/25/2035		AAA	AAA
123	MSM 2005-1 3A4	61748HJD4	MSM 2005-1	1,325,000.00	5.25%	3/25/2035		AAA	AAA
124	CWALT 2005-4 1A7	12667F7E9	CWALT 2005-4	985,000.00	5.50%	4/25/2035	Aa1	AAA	
125	POPLR 2004-4 M2	73316PAJ9	POPLR 2004-4	2,500,000.00	5.63%	9/25/2034	A2	A+	A+
126	ABFC 2005-HE1 M4	04542BKV3	ABFC 2005-HE1	2,000,000.00	0.67%	12/25/2034	A1	A+	A+
127	MSM 2005-1 1A4	61748HHV6	MSM 2005-1	540,000.00	5.25%	3/25/2035		AAA	AAA
128	RAST 2004-A8 A8	45660N4Q5	RAST 2004-A8	1,971,000.00	5.50%	11/25/2034		AAA	AAA
129	MSAC 2005-HE2 M4	61744CNE2	MSAC 2005-HE2	2,000,000.00	0.63%	1/25/2035	A1	A+	A+
130	ECR 2005-1 M1	126673VP4	ECR 2005-1	4,000,000.00	0.44%	7/25/2035	Aa1	AA+	
131	EMLT 2005-1 M1	29445FCN6	EMLT 2005-1	3,851,000.00	0.42%	4/25/2035	Aa1	AA+	AA+
132	MALT 2005-2 4A2	576434J62	MALT 2005-2	1,000,000.00	5.50%	3/25/2035	Aaa	AAA	
133	FFML 2004-FF8 M3	32027NNS6	FFML 2004-FF8	3,000,000.00	0.95%	10/25/2034	A2	A	AA-
134	GSAMP 2005-HE2 M1	36242DA52	GSAMP 2005-HE2	3,000,000.00	0.43%	3/25/2035	Aa2	AA	
135	ACE 2005-HE2 M1	004421MC4	ACE 2005-HE2	3,000,000.00	0.44%	4/25/2035	Aa1	AA+	AA+
136	CWHL 2005-6 1A12	12669GTB7	CWHL 2005-6	3,500,000.00	5.25%	4/25/2035	Aa1		AAA
137	MSAC 2005-WMC2 M2	61744CNS1	MSAC 2005-WMC2	1,500,000.00	0.43%	2/25/2035	Aa2	AA	AA
138	CWL 2004-5 M3	1266716M3	CWL 2004-5	10,000,000.00	1.15%	7/25/2034	A1	AA	AA-
139	DBALT 2005-2 1A7	251510DPS	DBALT 2005-2	10,000,000.00	5.94%	4/25/2035	Aaa		AAA

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140	SABR 2005-EC1 M1	81375WDD5	SABR 2005-EC1	2,000,000.00	0.41%	1/25/2035	Aa1	AA+	
141	ABSHE 2005-HE3 M1	04541GQU9	ABSHE 2005-HE3	2,956,000.00	0.42%	4/25/2035	Aa1	AA+	AA+
142	FFML 2004-FF6 M2	32027NKK6	FFML 2004-FF6	10,000,000.00	1.25%	7/25/2034	A2	A	A
143	CWALT 2005-3CB 1A7	12667FX59	CWALT 2005-3CB	5,000,000.00	5.50%	3/25/2035	Aaa	AAA	
144	MASTR 2004-5 1A6	57643MBN3	MASTR 2004-5	1,500,000.00	5.25%	5/25/2034		AAA	AAA
145	CWL 2005-2 M4	126673ZF2	CWL 2005-2	10,000,000.00	0.71%	8/25/2035		AA	
146	RAST 2005-A3 A2	45660LHS1	RAST 2005-A3	5,000,000.00	5.50%	4/25/2035		AAA	AAA
147	IMM 2005-3 M1	45254NNT0	IMM 2005-3	2,954,271.60	0.42%	8/25/2035	Aa1	AA+	
148	MABS 2005-WMC1 M1	57643LGW0	MABS 2005-WMC1	3,000,000.00	0.42%	3/25/2035	Aa1	AA+	
149	AMSI 2003-10 M1	03072SKR5	AMSI 2003-10	5,000,000.00	0.70%	12/25/2033	Aa2	AA	AA
150	OPMAC 2005-2 M1	68383NAW3	OPMAC 2005-2	4,000,000.00	0.43%	4/25/2035	Aa1	AA+	
151	QUEST 2005-X1 M1	03072SZJ7	QUEST 2005-X1	1,766,500.00	0.50%	3/25/2035	Aa2	AA	
152	SAIL 2004-8 M6	86358EME3	SAIL 2004-8	3,000,000.00	1.40%	9/25/2034	A3	A-	A-
153	FFML 2005-FF4 M1	32027NRC7	FFML 2005-FF4	2,500,000.00	0.43%	5/25/2035	Aa2	AA+	AA+
154	OWNIT 2005-2 M1	691215AX5	OWNIT 2005-2	4,000,000.00	0.42%	3/25/2036	Aa1	AA+	AA+
155	BAYV 2005-B M1	07325NAY8	BAYV 2005-B	3,000,000.00	0.45%	4/28/2039	Aa2	AA	AA
156	FFML 2005-FF2 M2	36242DN33	FFML 2005-FF2	3,000,000.00	0.44%	3/25/2035	Aa2	AA	
157	LONGP 2005-2A A1J	543136AB1	LONGP 2005-2A	2,000,000.00	0.50%	2/3/2040	Aaa	AAA	
158	CSFB 2005-2 5A7	225458FQ6	CSFB 2005-2	1,000,000.00	6.00%	3/25/2035		AAA	AAA
159	CFLX 2005-1 2A3	16165TAH6	CFLX 2005-1	4,700,000.00	6.00%	2/25/2035		AAA	AAA
160	WMALT 2005-2 1A2	9393363J0	WMALT 2005-2	1,638,000.00	5.50%	4/25/2035		AAA	AAA
161	HEAT 2005-3 M1	437084KQ8	HEAT 2005-3	2,000,000.00	0.41%	8/25/2035	Aa1	AA+	
162	ARSI 2004-W5 M2	040104HN4	ARSI 2004-W5	5,050,000.00	1.31%	4/25/2034	A2	A	A
163	SABR 2005-FR1 M1	81375WDS2	SABR 2005-FR1	4,000,000.00	0.45%	12/25/2034	Aa2	AA	AA
164	ARSI 2004-W11 M2	040104MF5	ARSI 2004-W11	10,000,000.00	0.70%	11/25/2034	Aa1	AA+	AA+
165	HELIO 1A A	423279AA6	HELIO 1A	9,582,819.35	0.50%	12/13/2036	Aa2	AA+	
166	SAIL 2005-1 M6	86358EQN9	SAIL 2005-1	3,000,000.00	0.82%	2/25/2035	A3	A-	A-
167	BAFC 2005-2 1A12	05946XTB9	BAFC 2005-2	1,285,000.00	5.50%	4/25/2035		AAA	AAA
168	NCHET 2005-2 M1	64352VKT7	NCHET 2005-2	3,666,000.00	0.43%	6/25/2035	Aa1	AA	
169	SVHE 2005-DO1 M1	83611MDX3	SVHE 2005-DO1	2,000,000.00	0.42%	5/25/2035	Aa1	AA+	AA+
170	ACE 2005-HE3 M1	004421NC3	ACE 2005-HE3	3,000,000.00	0.43%	5/25/2035	Aa1	AA+	AA+
171	MABS 2005-OPT1 M4	57643LHS8	MABS 2005-OPT1	2,950,000.00	0.50%	3/25/2035		AA	AA
172	MMLT 2004-2 M5	59001FBJ9	MMLT 2004-2	10,000,000.00	1.20%	1/25/2035	A2	A+	A+
173	AMSI 2004-R7 M6	03072STM7	AMSI 2004-R7	5,000,000.00	1.35%	8/25/2034	A2	A+	A+
174	CWL 2004-BC5 M5	126673PS5	CWL 2004-BC5	2,000,000.00	1.00%	10/25/2034	A2	A+	
175	ACCR 2005-1 M3	004375CV1	ACCR 2005-1	2,000,000.00	0.72%	4/25/2035	A2	A	

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176	ACCR 2005-1 M2	004375CU3	ACCR 2005-1	2,000,000.00	0.69%	4/25/2035	A1	A+	
177	CWALT 2005-18CB A10	12667GFG3	CWALT 2005-18CB	7,550,000.00	5.50%	5/25/2035	Aaa	AAA	
178	CWALT 2005-10CB 1A10	12667GBF9	CWALT 2005-10CB	9,000,000.00	5.50%	5/25/2035	Aaa	AAA	
179	MLMI 2005-WMC1 M3	59020UQX6	MLMI 2005-WMC1	5,200,000.00	0.75%	9/25/2035	A2	A+	
180	PPSI 2004-WHQ2 M4	70069FEL7	PPSI 2004-WHQ2	6,600,000.00	1.05%	2/25/2035	A1	A+	A+
181	FHLT 2005-B M2	35729PJW1	FHLT 2005-B	1,771,000.00	0.40%	4/25/2035	Aa1	AA+	
182	OOMLT 2005-2 M4	68389FHE7	OOMLT 2005-2	2,500,000.00	0.69%	5/25/2035		A+	A+
183	CMLTI 2005-HE1 M3	17307GQR2	CMLTI 2005-HE1	4,000,000.00	0.65%	5/25/2035	A2	A	A
184	PPSI 2005-WHQ2 M4	70069FHX8	PPSI 2005-WHQ2	3,000,000.00	0.62%	5/25/2035	A1	AA	AA-
185	SCF 7A B	83743YAD5	SCF 7A	3,000,000.00	0.60%	1/6/2041	Aa2	AA	AA
186	SCF 7A A2	83743YAC7	SCF 7A	5,000,000.00	0.45%	1/6/2041	Aaa	AAA	AAA
187	MSAC 2004-NC6 M2	61744CEV4	MSAC 2004-NC6	1,500,000.00	1.25%	7/25/2034	A2	A	A
188	GSR 2005-3F 1A3	36242DD26	GSR 2005-3F	10,000,000.00	5.50%	3/25/2035	Aaa		AAA
189	CFLAT 2004-AQ1 M3	161542DR3	CFLAT 2004-AQ1	4,145,000.00	1.40%	5/25/2034	A3	A-	A-
190	CSFB 2005-3 7A2	225458LJ5	CSFB 2005-3	1,843,800.00	5.75%	7/25/2035		AAA	AAA
191	CWL 2004-BC5 M6	126673PT3	CWL 2004-BC5	3,000,000.00	1.10%	10/25/2034	A3	A-	
192	GSAMP 2005-AHL M2	36242D2B8	GSAMP 2005-AHL	6,500,000.00	0.65%	4/25/2035	A2	A	
193	GSAMP 2005-AHL M3	36242D2C6	GSAMP 2005-AHL	2,000,000.00	0.70%	4/25/2035	A3	A-	
194	MLMI 2005-NC1 M2	59020URQ0	MLMI 2005-NC1	414,000.00	0.72%	10/25/2035	A2	A+	
195	SURF 2005-AB1 M3	84751PFG9	SURF 2005-AB1	3,375,000.00	0.65%	3/25/2036	A2	A	A
196	SURF 2005-AB1 M4	84751PFH7	SURF 2005-AB1	4,050,000.00	0.70%	3/25/2036	A3	A-	A-
197	CARR 2005-OPT2 M4	144531CM0	CARR 2005-OPT2	5,000,000.00	0.65%	5/25/2035	A2	A+	A+
198	MSAC 2004-OP1 M5	61744CJH0	MSAC 2004-OP1	2,500,000.00	1.05%	11/25/2034	A2	A	A
199	MLMI 2003-OPT1 M2	5899295L8	MLMI 2003-OPT1	1,500,000.00	1.45%	7/25/2034	A2	AA	A+
200	NWALL 2005-1A A2	66726RAB0	NWALL 2005-1A	3,000,000.00	0.50%	12/6/2041		AAA	AAA
201	NWALL 2005-1A B	66726RAC8	NWALL 2005-1A	3,000,000.00	0.70%	12/6/2041		AA	AA
202	POPLR 2005-A M2	73316PDB3	POPLR 2005-A	1,750,000.00	0.63%	6/25/2035	A2	A	
203	BSABS 2005-TC1 M2	073879VG0	BSABS 2005-TC1	1,500,000.00	0.65%	5/25/2035	A2	A	
204	CMSI 2005-1 1A2	172973M71	CMSI 2005-1	2,345,000.00	5.00%	2/25/2035	Aaa		AAA
205	MLMI 2005-A3 M2	59020UVU6	MLMI 2005-A3	1,958,000.00	0.65%	4/25/2035	A2	A	A
206	SASC 2005-5 2A2	863576AF1	SASC 2005-5	10,000,000.00	5.50%	4/25/2035		AAA	AAA
207	FFML 2004-FF5 M4	32027NJY8	FFML 2004-FF5	5,000,000.00	1.30%	8/25/2034		A+	A+
208	FFML 2005-FF3 M5	86359DBP1	FFML 2005-FF3	9,209,000.00	0.65%	4/25/2035	A2	A	A
209	WFMBS 2005-3 A12	94982GAM1	WFMBS 2005-3	10,000,000.00	5.50%	5/25/2035	Aaa		AAA
210	MSHEL 2005-2 M3	61744CQM1	MSHEL 2005-2	3,000,000.00	0.45%	5/25/2035	Aa3	AA-	AA-
211	TMTS 2005-10HE M6	BCC0JVPR5	TMTS 2005-10HE	4,140,000.00	0.72%	5/25/2036	A3	A	

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212	SURF 2005-BC2 M2	84751PFV6	SURF 2005-BC2	2,000,000.00	0.44%	12/25/2035	Aa2	AA	
213	SVHE 2005-2 M6	83611MEV6	SVHE 2005-2	1,000,000.00	0.72%	7/25/2035	A3	A-	A-
214	SASC 2005-WF2 M6	86359DDG9	SASC 2005-WF2	2,000,000.00	0.66%	5/25/2035	A3	A-	A-
215	WMALT 2005-3 1CB2	9393364Z3	WMALT 2005-3	2,049,000.00	5.50%	5/25/2035	Aaa	AAA	
216	RFMSI 2005-S4 A2	76111XUT8	RFMSI 2005-S4	10,000,000.00	5.50%	5/25/2035	Aaa	AAA	
217	SASC 2005-6 2A17	863576BX1	SASC 2005-6	10,000,000.00	5.50%	5/25/2035	Aaa	AAA	
218	FFML 2005-FF6 M5	32027NSN2	FFML 2005-FF6	5,000,000.00	0.69%	5/25/2036	A3	A-	
219	MLMI 2005-WMC2 M6	59020UWN1	MLMI 2005-WMC2	5,000,000.00	0.70%	4/25/2036	A3	A	
220	ACCR 2005-2 M6	004375DJ7	ACCR 2005-2	3,000,000.00	0.68%	7/25/2035	A3	A-	
221	NHEL 2005-2 M1	66987WCM7	NHEL 2005-2	2,000,000.00	0.43%	10/25/2035	Aa1	AA+	AA+
222	CSFB 2005-5 6A3	BCC0JQUU3	CSFB 2005-5	10,000,000.00	5.00%	5/1/2035	Aaa	AAA	

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Exhibit A

Form of Purchaser and Transferee Letter
For Regulation S Global Preference Shares

Date

Kleros Preferred Funding, Ltd.
c/o Walkers SPV Limited
P.O. Box 908 GT
Walker House
Mary Street, George Town
Grand Cayman, Cayman Islands
Attention: The Directors

Wells Fargo Bank, National Association
Wells Fargo Center
Sixth Street and Marquette Avenue
Minneapolis, Minnesota 55479
Attention: CDO Trust Services – Kleros Preferred Funding, Ltd.

Strategos Capital Management, LLC
1818 Market Street
28th Floor
Philadelphia, Pennsylvania 19102

Maples Finance Limited
P.O. Box 1093 GT
Queensgate House
Grand Cayman, Cayman Islands

Ladies and Gentlemen:

Reference is made to the Offering Circular (the "Offering Circular") relating to (i) the offering by Kleros Preferred Funding, Ltd. (the "Issuer") and Kleros Preferred Funding, LLC (the "Co-Issuer") of Class A-1 First Priority Senior Secured Floating Rate Notes due 2041, Class A-2 Second Priority Senior Secured Floating Rate Notes due 2041, Class B Third Priority Senior Secured Floating Rate Notes due 2041, Class C Fourth Priority Mezzanine Secured Deferrable Floating Rate Notes due 2041, Class D Fifth Priority Mezzanine Secured Deferrable Floating Rate Notes due 2041and Preference Shares. Terms used but not defined herein have the respective meanings given to such terms in the Offering Circular.

The Offering Circular provides that Preference Shares offered and sold outside the United States may be offered to non-U.S. Persons which are not Benefit Plan Investors or Controlling Persons in reliance upon Regulation S under the Securities Act of 1933, as amended (the "Securities Act"), and will be issued in the form of one or more Regulation S Global Preference Shares ("Regulation S Global Preference Shares"). The Regulation S Global Preference Shares shall be deposited with the Preference Share Paying Agent as custodian for, and registered in the name of, DTC (or its nominee). The Preference Shares that we purchase (the "Purchased Preference Shares") will be represented by an interest in a Regulation S Global Preference Share.

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We acknowledge that this letter must be delivered to the Issuer, the Preference Share Paying Agent and the Preference Share Registrar as a condition to the transfer of the Purchased Preference Shares.

In consideration of the foregoing, we agree with the Issuer, the Preference Share Paying Agent and the Preference Share Registrar that prior to any sale, assignment, pledge or other transfer of any of the Preference Shares (or any interest therein) to any transferee, we will:

(i) cause the transferee to, if required by the Preference Share Paying Agency Agreement, make the applicable certifications to the Issuer, the Preference Share Paying Agent and the Preference Share Registrar set forth in the Transfer Certificate (as defined in the Preference Share Paying Agency Agreement); and

(ii) cause the transferee to deliver a letter to the Issuer, the Preference Share Paying Agent and the Preference Share Registrar to the effect that (A) such transferee will, prior to any sale, assignment, pledge or other transfer of any of the Purchased Preference Shares (or any interest therein) to any subsequent transferee, cause such subsequent transferee to take the actions specified in this clause and the immediately preceding clause (i) (as if each reference to the word "transferee" were a reference to such subsequent transferee); and (B) it is not a benefit plan investor as defined in United States Department of Labor Regulations at 29 C.F.R. §2510.3-101(f) (a "Benefit Plan Investor") or a Controlling Person and will not transfer its interest in the Preference Share to a Benefit Plan Investor or a Controlling Person.

We represent and warrant to the Issuer, the Preference Share Paying Agent and the Preference Share Registrar that:

We are neither a Benefit Plan Investor nor a Controlling Person.

In addition, we represent and warrant to the Issuer, the Preference Share Agent and the Preference Share Registrar that we will not transfer our interest in the Preference Share to a Benefit Plan Investor or a Controlling Person.

We understand that this letter will be relied upon by the Issuer, the Initial Purchaser, the Preference Share Paying Agent, the Preference Share Registrar and the Collateral Manager for the purpose of ensuring that subsequent transferees have notice of, and are subject to, the transfer restrictions applicable to the Purchased Preference Shares and described in the Offering Circular. We agree to indemnify and hold harmless the Issuer, the Initial Purchaser, the Preference Share Paying Agent, the Collateral Manager and the Preference Share Registrar and each of their respective affiliates from and against any loss, damage or liability to the extent due to or arising out of a breach of any representation, warranty or agreement made by us in this letter.

This letter agreement shall be governed by and construed in accordance with the laws of the State of New York.

Very truly yours,

NAME OF HOLDER

By: _____

Name:
Title:

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A signed copy of this letter agreement must be faxed to Wells Fargo Bank, National Association at (410) 715-3748 Attention: Kleros Preferred Funding, Ltd.; and mailed to Strategos Capital Management, LLC, 1818 Market Street, Philadelphia, PA 19103 Attention: Matthew Nannen; and Walkers SPV Limited at P.O. Box 908 GT, Walker House, Mary Street, George Town, Grand Cayman, Cayman Islands., Attention: Kleros Preferred Funding, Ltd.

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Kleros Preferred Funding, LLC

U.S.$850,000,000 Class A-1First Priority Senior Secured Floating Rate Notes Due October 2041
U.S.$68,500,000 Class A-2Second Priority Senior Secured Floating Rate Notes Due October 2041
U.S.$51,500,000 Class B Third Priority Senior Secured Floating Rate Notes Due October 2041
U.S.$13,000,000 Class C Fourth Priority Mezzanine Secured Deferrable Floating Rate Notes Due October 2041
U.S.$8,500,000 Class D Fifth Priority Mezzanine Secured Deferrable Floating Rate Notes Due October 2041
15,500 Preference Shares with an Aggregate liquidation preference of U.S.$15,500,000

Backed by a Portfolio of Asset-Backed Securities, Residential Mortgaged-Backed Securities and Related Synthetic Securities

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Dated June 2, 2005

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