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DISCLAIMER

Attached please find an electronic copy of the Offering Circular dated August 2, 2006 (the "Offering Circular") relating to the offering by Kleros Real Estate CDO II, Ltd. and Kleros Real Estate CDO II, 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 Offered Notes described therein, you must either (i) be a Qualified Purchaser who is also a "Qualified Institutional Buyer" within the meaning of Rule 144A under the Securities Act of 1933, as amended, 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.

THE ATTACHED OFFERING CIRCULAR CONTAINS CHANGES TO THE TERMS AND CONDITIONS OF THE OFFERING OF THE SECURITIES BEING ISSUED BY KLEROS REAL ESTATE CDO II, LTD., AND KLEROS REAL ESTATE CDO II, LLC AS COMPARED WITH THE TERMS AND CONDITIONS OF THE OFFERING SET FORTH IN THE PRELIMINARY OFFERING CIRCULAR DATED JULY 17, 2006. THOSE DIFFERENCES ARE IDENTIFIED IN THE MARKED VERSION ALSO ATTACHED. PLEASE REVIEW THOSE CHANGES CAREFULLY AND DISCUSS THEM WITH YOUR ADVISORS. IF YOU DO NOT WISH TO PURCHASE THE SECURITIES BEING OFFERED ON THE TERMS AND CONDITIONS IN THE ATTACHED OFFERING CIRCULAR, PLEASE NOTIFY US IN WRITING PRIOR TO THE CLOSING DATE (AS DEFINED IN THE OFFERING CIRCULAR). BASED ON SUCH REVISIONS, YOU HAVE NO OBLIGATION TO PURCHASE ANY OF THE SECURITIES BEING OFFERED ON THE TERMS AND CONDITIONS SET FORTH IN THE ATTACHED OFFERING CIRCULAR, AND IF YOU ELECT NOT TO PURCHASE SUCH SECURITIES, YOU WILL NOT BE LIABLE FOR ANY DAMAGES (AND YOU WILL HAVE NO DAMAGES AGAINST ANY OTHER PARTY). YOUR FAILURE TO PROVIDE WRITTEN NOTICE TO US PRIOR TO THE CLOSING DATE OF YOUR DESIRE NOT TO PURCHASE THE SECURITIES BEING OFFERED BY THE ATTACHED OFFERING CIRCULAR SHALL BE DEEMED TO BE YOUR AGREEMENT THAT YOU ARE PURCHASING YOUR SECURITIES ON THE TERMS AND CONDITIONS SET FORTH IN THE ATTACHED 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 OR FROM COHEN BROS. & COMPANY, LLC, AS PLACEMENT AGENT, 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.

OFFERING CIRCULAR

U.S.$775,000,000 Class A-1A First Priority Senior Secured Floating Rate Notes Due November 2046
U.S.$125,000,000 Class A-1B Second Priority Senior Secured Floating Rate Notes Due November 2046
U.S.$23,000,000 Class A-2 Third Priority Senior Secured Floating Rate Notes Due November 2046
U.S.$18,700,000 Class B Fourth Priority Senior Secured Floating Rate Notes Due November 2046
U.S.$27,000,000 Class C Fifth Priority Senior Secured Floating Rate Notes Due November 2046
U.S.$11,000,000 Class D Sixth Priority Mezzanine Deferrable Floating Rate Notes Due November 2046
U.S.$15,000,000 Class E Seventh Priority Mezzanine Deferrable Fixed Rate Notes Due November 2046
4,000 Preference Shares

Backed by a Portfolio of Residential Mortgage-Backed Securities and Commercial Mortgage-Backed Securities

Kleros® Real Estate CDO II, Ltd.
Kleros Real Estate CDO II, LLC

Kleros Real Estate CDO II, Ltd., an exempted company incorporated under the laws of the Cayman Islands (the "Issuer"), and Kleros Real Estate CDO II, LLC, a Delaware limited liability company (the "Co-Issuer" and, together with the Issuer, the "Co-Issuers"), will issue U.S.$775,000,000 Class A-1A First Priority Senior Secured Floating Rate Notes due November 2046 (the "Class A-1A Notes"), U.S.$125,000,000 Class A-1B Second Priority Senior Secured Floating Rate Notes due November 2046 (the "Class A-1B Notes and, together with the Class A-1A Notes, the "Class A-1 Notes"), U.S.$23,000,000 Class A-2 Third Priority Senior Secured Floating Rate Notes due November 2046 (the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes"), U.S.$18,700,000 Class B Fourth Priority Senior Secured Floating Rate Notes due November 2046 (the "Class B Notes") and U.S.$27,000,000 Class C Fifth Priority Senior Secured Floating Rate Notes due November 2046 (the "Class C Notes"). The Issuer will issue U.S.$11,000,000 Class D Sixth Priority Mezzanine Deferrable Floating Rate Notes due November 2046 (the "Class D Notes") and U.S.$15,000,000 Class E Seventh Priority Mezzanine Deferrable Fixed Rate Notes due November 2046 (the "Class E Notes"). The Class A-1 Notes, Class A-2 Notes, Class B Notes and Class C Notes are collectively referred to herein as the "Secured Notes" or the "Offered Notes." The Class D Notes and the Class E Notes are referred to herein as the "Subordinate Notes." The Secured Notes and the Subordinate Notes are referred to herein as the "Notes." Concurrently with the issuance of the Notes, the Issuer will issue 4,000 Preference Shares par value U.S.$0.01 per share (the "Preference Shares," and together with the Notes, the "Securities"). The Subordinate Notes and the Preference Shares will be issued and sold by the Issuer in a private sale and are not offered hereby. Strategos Capital Management, LLC, a Delaware limited liability company (the "Collateral Advisor") will advise the Issuer with respect to the Collateral.

(continued on next page)

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 SECURITIES. THE PLEDGED ASSETS OF THE ISSUER ARE THE SOLE SOURCE OF PAYMENTS ON THE SECURITIES. THE SECURITIES DO NOT REPRESENT INTERESTS IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE TRUSTEE, THE FISCAL AGENT, THE COLLATERAL ADVISOR, ANY HEDGE COUNTERPARTY, MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED OR ANY OF THEIR RESPECTIVE AFFILIATES.

THE 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 NOTES 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 "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A 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. THE SUBORDINATE NOTES AND THE PREFERENCE SHARES ARE BEING OFFERED 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) ACCREDITED INVESTORS WITHIN THE MEANING OF RULE 501(a) UNDER THE SECURITIES ACT THAT ARE ALSO PERSONS (OTHER THAN ANY RATING ORGANIZATION RATING THE ISSUER'S SECURITIES) INVOLVED IN THE ORGANIZATION OR OPERATION OF THE ISSUER OR AFFILIATES, AS DEFINED IN RULE 405 UNDER THE SECURITIES ACT, OF SUCH PERSONS (EACH, A "PERMITTED EQUITY INVESTOR"). A TRANSFER OF 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 Notes 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. Cohen Bros. & Company, LLC, an Affiliate of the Collateral Advisor, may act as a Placement Agent (the "Placement Agent") with respect to certain of the Securities. It is expected that the Offered Notes will be delivered on or about August 3, 2006 (the "Closing Date") through the facilities of The Depository Trust Company ("DTC") against payment therefor in immediately available funds. The Subordinate Notes and the Preference Shares are not being offered hereby. The Subordinate Notes and the Preference Shares are being offered by the Issuer in a privately negotiated transaction. None of the Initial Purchaser, the Placement Agent nor any of their respective affiliates nor any other person is acting as initial purchaser or distributor with respect to the Subordinate Notes or the Preference Shares.

Merrill Lynch & Co.

The date of this Offering Circular is August 2, 2006.

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It is a condition to the issuance of the Securities that the Class A-1A Notes be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's" and, together with Moody's, the "Rating Agencies"), that the Class A-1B Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by Standard & Poor's, that the Class C Notes be rated at least "Aa3" by Moody's and at least "AA-" by Standard & Poor's, that the Class D Notes be rated at least "Baa2" by Moody's and at least "BBB" by Standard & Poor's, and that the Class E Notes be rated at least "Ba2" by Moody's and at least "BB" by Standard & Poor's. A credit rating is not a recommendation to buy, hold or sell securities and is subject to revision at any time. The Preference Shares will not be rated by any Rating Agency.

The Secured 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 LaSalle Bank National Association, as trustee (the "Trustee"). The Subordinate Notes will be issued pursuant to a deed of covenant dated as of the Closing Date (the "Deed of Covenant") by the Issuer and will be administered pursuant to a fiscal agency agreement dated as of the Closing Date (the "Fiscal Agency Agreement") between the Issuer and LaSalle Bank National Association, as fiscal agent (the "Fiscal Agent").

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 will be administered 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 LaSalle 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").

The Offered Notes are offered from time to time in individually negotiated transactions at varying prices to be determined at the time of sale by the Initial Purchaser or the Placement Agent, as the case may be.

Application will be made to the Irish Stock Exchange for the Offered Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such listing will be obtained. No application will be made to list the Offered Notes on any other stock exchange. No application will be made to list the Subordinate Notes or the Preference Shares on any stock exchange.

THIS OFFERING CIRCULAR CONTAINS CHANGES TO THE TERMS AND CONDITIONS OF THE OFFERING OF THE SECURITIES BEING ISSUED BY KLEROS REAL ESTATE CDO II, LTD., AND KLEROS REAL ESTATE CDO II, LLC AS COMPARED WITH THE TERMS AND CONDITIONS OF THE OFFERING SET FORTH IN

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THE PRELIMINARY OFFERING CIRCULAR DATED JULY 17, 2006. THOSE DIFFERENCES ARE IDENTIFIED IN THE MARKED VERSION OF THIS OFFERING CIRCULAR BEING DISTRIBUTED TOGETHER WITH THIS OFFERING CIRCULAR. PLEASE REVIEW THOSE CHANGES CAREFULLY AND DISCUSS THEM WITH YOUR ADVISORS. IF YOU DO NOT WISH TO PURCHASE THE SECURITIES BEING OFFERED ON THE TERMS AND CONDITIONS IN THIS OFFERING CIRCULAR, PLEASE NOTIFY US IN WRITING PRIOR TO THE CLOSING DATE (AS DEFINED IN THIS OFFERING CIRCULAR). BASED ON SUCH REVISIONS, YOU HAVE NO OBLIGATION TO PURCHASE ANY OF THE SECURITIES BEING OFFERED ON THE TERMS AND CONDITIONS SET FORTH IN THIS OFFERING CIRCULAR, AND IF YOU ELECT NOT TO PURCHASE SUCH SECURITIES, YOU WILL NOT BE LIABLE FOR ANY DAMAGES (AND YOU WILL HAVE NO DAMAGES AGAINST ANY OTHER PARTY). YOUR FAILURE TO PROVIDE WRITTEN NOTICE TO US PRIOR TO THE CLOSING DATE OF YOUR DESIRE NOT TO PURCHASE THE SECURITIES BEING OFFERED BY THIS OFFERING CIRCULAR SHALL BE DEEMED TO BE YOUR AGREEMENT THAT YOU ARE PURCHASING YOUR SECURITIES ON THE TERMS AND CONDITIONS SET FORTH IN THIS OFFERING CIRCULAR.

Reference in this Offering Circular to any website addresses will not be deemed to constitute a part of the document for the purposes of listing the Notes on the official list of the Irish Stock Exchange.

Notice to New Hampshire Residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 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

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BY THE ISSUER, THE CO-ISSUER, THE TRUSTEE, THE INITIAL PURCHASER, THE PLACEMENT AGENT, THE COLLATERAL ADVISOR, THE HEDGE COUNTERPARTIES 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 NOTES OR (B) ANY OFFERED NOTES 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 NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. PERSONS INTO WHOSE POSSESSION THIS OFFERING CIRCULAR COMES ARE REQUIRED BY THE CO-ISSUERS, THE PLACEMENT AGENT 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 THE 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, THE PLACEMENT AGENT AND THE INITIAL PURCHASER RESERVE THE RIGHT, FOR ANY REASON, TO REJECT ANY OFFER TO PURCHASE IN WHOLE OR IN PART, TO ALLOT TO ANY OFFEREE LESS THAN THE FULL AMOUNT OF 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 SECURED NOTES ARE LIMITED RECOURSE OBLIGATIONS OF THE CO-ISSUERS. THE SECURED NOTES ARE PAYABLE SOLELY FROM THE COLLATERAL DEBT SECURITIES AND OTHER COLLATERAL PLEDGED BY THE ISSUER TO SECURE THE SECURED NOTES. THE SUBORDINATE NOTES ARE LIMITED RECOURSE OBLIGATIONS OF THE ISSUER AND WILL NOT BE SECURED BY ANY COLLATERAL OTHER THAN THE CLASS D NOTE PAYMENT ACCOUNT AND THE CLASS E NOTE PAYMENT ACCOUNT.

NONE OF THE SECURITY HOLDERS, MEMBERS, OFFICERS, DIRECTORS, MANAGERS OR INCORPORATORS OF THE ISSUER, THE CO-ISSUER, THE TRUSTEE, THE FISCAL AGENT, THE ADMINISTRATOR, THE COLLATERAL ADVISOR, ANY RATING AGENCY, THE SHARE TRUSTEE, THE INITIAL PURCHASER, THE PLACEMENT AGENT, ANY HEDGE COUNTERPARTY, ANY OF THEIR RESPECTIVE AFFILIATES OR ANY OTHER PERSON OR ENTITY WILL BE OBLIGATED TO MAKE PAYMENTS ON THE NOTES. CONSEQUENTLY, THE NOTEHOLDERS MUST RELY SOLELY ON AMOUNTS RECEIVED IN RESPECT OF THE COLLATERAL DEBT SECURITIES AND OTHER COLLATERAL PLEDGED TO SECURE THE NOTES FOR THE PAYMENT OF PRINCIPAL THEREOF AND INTEREST THEREON.

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NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, EFFECTIVE FROM THE DATE OF COMMENCEMENT OF DISCUSSIONS, EACH RECIPIENT 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. 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 RECIPIENT 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 ADVISOR OR ANY OTHER PARTY TO THE TRANSACTION, THIS OFFERING OR THE PRICING (EXCEPT TO THE EXTENT THAT SUCH INFORMATION IS RELEVANT TO TAX STRUCTURE OR TAX TREATMENT) OF THIS OFFERING.

THE 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 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 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 SECURITIES IS SUBJECT TO THE RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE OF A SECURITY (1) EXCEPT AS PERMITTED UNDER (A) THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION AS DESCRIBED HEREIN, (B) APPLICABLE STATE SECURITIES LAWS AND (C) APPLICABLE SECURITIES LAWS OF ANY OTHER JURISDICTION, (2) EXCEPT IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SET FORTH IN THE INDENTURE, THE FISCAL AGENCY AGREEMENT OR THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, AS APPLICABLE, 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 OF THE PREFERENCE SHARES). THE SECURITIES ARE SUBJECT TO FURTHER RESTRICTIONS ON TRANSFER. SEE "TRANSFER RESTRICTIONS."

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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 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 SECURED NOTE REGISTER MAINTAINED BY THE SECURED NOTE REGISTRAR PURSUANT TO THE INDENTURE. ANY TRANSFER OF A SUBORDINATE NOTE MAY BE EFFECTED ONLY ON THE SUBORDINATE NOTE REGISTER MAINTAINED BY THE SUBORDINATE NOTE REGISTRAR PURSUANT TO THE FISCAL AGENCY AGREEMENT. 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 NOTE (OTHER THAN A SUBORDINATE NOTE) OR ANY INTEREST THEREIN IS 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 SUCH NOTE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS ANY SUCH NOTE OR ANY 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") THAT IS SUBJECT TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE, AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101 (THE "PLAN ASSET REGULATION"), 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 (OTHER THAN A SUBORDINATE NOTE) WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION IN VIOLATION OF SECTION 406 OF ERISA OR SECTION 4975 OF THE

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CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SIMILAR LAW).

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A SUBORDINATE NOTE IS REQUIRED TO REPRESENT, WARRANT AND AGREE THAT SUCH HOLDER IS NOT (AND FOR SO LONG AS IT HOLDS A SUBORDINATE NOTE WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS A SUBORDINATE NOTE WILL NOT BE ACTING ON BEHALF OF) (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA), WHETHER OR NOT SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN SECTION 4975(e)(1) OF THE CODE, OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" (WITHIN THE MEANING OF THE PLAN ASSET REGULATION) BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS") AND INCLUDING FOR THIS PURPOSE INSURANCE COMPANY GENERAL ACCOUNTS ANY OF THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA (AND A WHOLLY OWNED SUBSIDIARY OF SUCH A GENERAL ACCOUNT).

EACH ORIGINAL PURCHASER OF A PREFERENCE SHARE AND EACH TRANSFEREE OF A PREFERENCE SHARE IS REQUIRED TO CERTIFY WHETHER OR NOT IT IS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON (EACH, AS DEFINED BELOW). NO PURCHASE OR TRANSFER OF A PREFERENCE SHARE WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH PURCHASE OR TRANSFER IF, AFTER GIVING EFFECT TO SUCH TRANSFER, 25% OR MORE OF THE PREFERENCE SHARES (DISREGARDING THE PREFERENCE SHARES HELD BY PERSONS OTHER THAN BENEFIT PLAN INVESTORS WHO HAVE DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER, OR WHO PROVIDE INVESTMENT ADVICE FOR A FEE, DIRECT OR INDIRECT, WITH RESPECT TO SUCH ASSETS, OR ANY AFFILIATES OF SUCH PERSONS (EACH, A "CONTROLLING PERSON")) WOULD BE HELD BY BENEFIT PLAN INVESTORS.

NO PREFERENCE SHARE MAY BE ACQUIRED BY OR TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON UNLESS, AFTER GIVING EFFECT TO SUCH TRANSFER, LESS THAN 25% OF THE PREFERENCE SHARES WOULD BE HELD BY BENEFIT PLAN INVESTORS (DISREGARDING THE PREFERENCE SHARES HELD BY CONTROLLING PERSONS).

AN ORIGINAL PURCHASER AND EACH TRANSFEREE OF A PREFERENCE SHARE THAT IS A BENEFIT PLAN INVESTOR SUBJECT TO TITLE I OF ERISA, THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE OR ANY SIMILAR LAW IS REQUIRED TO CERTIFY THAT ITS ACQUISITION AND HOLDING OF SUCH PREFERENCE SHARES 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,

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WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW). A "BENEFIT PLAN INVESTOR" INCLUDES AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA), WHETHER OR NOT IT IS SUBJECT TO TITLE I OF ERISA, A "PLAN" (AS DEFINED IN SECTION 4975(e)(1) OF THE CODE), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY, AND AN INSURANCE COMPANY GENERAL ACCOUNT ANY OF THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA (AND A WHOLLY OWNED SUBSIDIARY OF SUCH GENERAL ACCOUNT).

FOR THESE REASONS, AMONG OTHERS, AN INVESTMENT IN THE 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, 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 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 SECURITIES.

THE 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 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 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. None of the Initial Purchaser, the Placement Agent or any of their respective affiliates make any representation or warranty as to, has independently verified or assumes any

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responsibility for, the accuracy or completeness of the information contained herein. Neither the Collateral Advisor 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 relating to the Collateral Advisor and set forth herein under "Collateral Advisor") except the Collateral Advisor accepts responsibility for the information set forth in the section entitled "Collateral Advisor." To the best of the knowledge and belief of the Collateral Advisor (which has taken all reasonable care to ensure that such is the case) this section is in accordance with the facts and does not omit anything likely to affect the import of such information. None of the Hedge Counterparties or any of their guarantors nor any of their respective 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. Neither the Trustee nor the Fiscal Agent has participated in the preparation of this Offering Circular and neither assumes any responsibility for its contents.

All of the statements in this Offering Circular with respect to the business of the Co-Issuers, and any financial projections or other forecasts, are based on information furnished by the Co-Issuers. See "Forward Looking Statements." None of the Initial Purchaser, the Placement Agent, the Collateral Advisor or any of their respective affiliates assume 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 Securities, instruments or documents delivered in connection with the 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. None of the Hedge Counterparties or their respective guarantors, if any, assumes 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 Securities, instruments or documents delivered in connection with the 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.

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 Co-Issuers will make available to any offeree of the 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 that the Co-Issuers possess such information or can obtain it without unreasonable expense.

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Although the Initial Purchaser or the Placement Agent may from time to time make a market in any Class of Offered Notes, neither the Initial Purchaser nor the Placement Agent is under an obligation to do so. In the event that the Initial Purchaser or the Placement Agent commences any market-making, the Initial Purchaser or the Placement Agent, as the case may be, may discontinue the same at any time. There can be no assurance that a secondary market for any Class of the Offered Notes will develop, or if a secondary market does develop, that it will provide the holders of such Securities with liquidity of investment or that it will continue for the life of such Offered Notes.

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

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

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

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

Offers, sales and deliveries of the 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."

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

NOTICE TO FLORIDA RESIDENTS

THE 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 SECURITIES WITHOUT PENALTY WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION.

NOTICE TO CONNECTICUT RESIDENTS

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

NOTICE TO GEORGIA RESIDENTS

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

NOTICE TO RESIDENTS OF AUSTRIA

THIS OFFERING CIRCULAR IS NOT A PROSPECTUS UNDER THE AUSTRIAN CAPITAL MARKETS ACT OR THE AUSTRIAN INVESTMENT FUNDS ACT. THIS OFFERING CIRCULAR HAS NOT BEEN EXAMINED BY A PROSPECTUS AUDITOR AND NO PROSPECTUS ON THE PRIVATE PLACEMENT OF THE SECURITIES HAS BEEN PUBLISHED OR WILL BE PUBLISHED IN AUSTRIA. THE SECURITIES ARE OFFERED IN AUSTRIA ONLY TO A RESTRICTED AND SELECTED NUMBER OF PROFESSIONAL AND SOPHISTICATED INDIVIDUAL INVESTORS, AND NO PUBLIC OFFERING OF THE SECURITIES IN AUSTRIA IS BEING MADE OR IS INTENDED TO BE MADE. THE SECURITIES CAN ONLY BE ACQUIRED FOR A COMMITMENT EXCEEDING 50,000 EUROS OR ITS EQUIVALENT VALUE IN ANY FOREIGN

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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 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 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 SECURITIES MAY NOT BE OFFERED TO MEMBERS OF THE PUBLIC IN THE CAYMAN ISLANDS.

NOTICE TO RESIDENTS OF DENMARK

EACH OF THE CO-ISSUERS, THE PLACEMENT AGENT AND THE INITIAL PURCHASER HAS AGREED THAT IT HAS NOT OFFERED OR SOLD AND WILL NOT OFFER, SELL OR DELIVER ANY 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.

NOTICE TO RESIDENTS OF EUROPEAN ECONOMIC AREA

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A "RELEVANT MEMBER STATE"), EACH DEALER HAS REPRESENTED AND AGREED, AND EACH

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FURTHER DEALER APPOINTED UNDER THE PROGRAMME WILL BE REQUIRED TO REPRESENT AND AGREE, THAT WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED IN THAT RELEVANT MEMBER STATE (THE "RELEVANT IMPLEMENTATION DATE") IT HAS NOT MADE AND WILL NOT MAKE AN OFFER OF SECURITIES TO THE PUBLIC IN THAT RELEVANT MEMBER STATE EXCEPT THAT IT MAY, WITH EFFECT FROM AND INCLUDING THE RELEVANT IMPLEMENTATION DATE, MAKE AN OFFER OF SECURITIES TO THE PUBLIC IN THAT RELEVANT MEMBER STATE:

(A) IN (OR IN GERMANY, WHERE THE OFFER STARTS WITHIN) THE PERIOD BEGINNING ON THE DATE OF PUBLICATION OF A PROSPECTUS IN RELATION TO THOSE SECURITIES WHICH HAS BEEN APPROVED BY THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE OR, WHERE APPROPRIATE, APPROVED IN ANOTHER RELEVANT MEMBER STATE AND NOTIFIED TO THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE, ALL IN ACCORDANCE WITH THE PROSPECTUS DIRECTIVE AND ENDING ON THE DATE WHICH IS 12 MONTHS AFTER THE DATE OF SUCH PUBLICATION;

(B) AT ANY TIME TO LEGAL ENTITIES WHICH ARE AUTHORISED OR REGULATED TO OPERATE IN THE FINANCIAL MARKETS OR, IF NOT SO AUTHORISED OR REGULATED, WHOSE CORPORATE PURPOSE IS SOLELY TO INVEST IN SECURITIES;

(C) AT ANY TIME TO ANY LEGAL ENTITY WHICH HAS TWO OR MORE OF (1) AN AVERAGE OF AT LEAST 250 EMPLOYEES DURING THE LAST FINANCIAL YEAR; (2) A TOTAL BALANCE SHEET OF MORE THAN €43,000,000 AND (3) AN ANNUAL TURNOVER OF MORE THAN €50,000,000, AS SHOWN IN ITS LAST ANNUAL OR CONSOLIDATED ACCOUNTS; OR

(D) AT ANY TIME IN ANY OTHER CIRCUMSTANCES WHICH DO NOT REQUIRE THE PUBLICATION BY THE ISSUER OF A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN "OFFER OF SECURITIES TO THE PUBLIC" IN RELATION TO ANY SECURITIES IN ANY RELEVANT MEMBER STATE MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE SECURITIES TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE OR SUBSCRIBE THE SECURITIES, AS THE SAME MAY BE VARIED IN THAT MEMBER STATE BY ANY MEASURE IMPLEMENTING THE PROSPECTUS DIRECTIVE IN THAT MEMBER STATE AND THE EXPRESSION "PROSPECTUS DIRECTIVE" MEANS DIRECTIVE 2003/71/EC AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN EACH RELEVANT MEMBER STATE.

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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 SECURITIES. THE RAHOITUSTARKASTUS HAS NOT AUTHORIZED ANY OFFERING OF THE SUBSCRIPTION OF THE SECURITIES; ACCORDINGLY, THE 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 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 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 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 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 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

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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 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—CERTAIN MATTERS WITH RESPECT TO GERMAN INVESTORS." ALL PROSPECTIVE GERMAN INVESTORS ARE URGED TO SEEK INDEPENDENT TAX ADVICE. NEITHER THE INITIAL PURCHASER NOR THE PLACEMENT AGENT GIVES TAX ADVICE.

NOTICE TO RESIDENTS OF HONG KONG

NO PERSON MAY OFFER OR SELL ANY 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 SECURITIES OTHER THAN (I) IN RESPECT OF 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 SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF JAPAN. NEITHER THE 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

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ENTITY ORGANIZED UNDER THE LAWS OF JAPAN), OR TO OTHERS FOR RE-OFFERING OR SALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO A RESIDENT OF JAPAN EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE SECURITIES AND EXCHANGE LAW AND ANY OTHER APPLICABLE LAW, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

NOTICE TO RESIDENTS OF THE NETHERLANDS

THE 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 SECURITIES MAY NOT BE OFFERED, AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING DOCUMENT OR MATERIAL RELATING TO THE 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 SECURITIES MAY NOT BE OFFERED OR DISTRIBUTED ON A

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PROFESSIONAL BASIS IN OR FROM SWITZERLAND, AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THE SECURITIES MAY BE DISTRIBUTED IN CONNECTION WITH ANY SUCH OFFERING OR DISTRIBUTION. THE SECURITIES MAY, HOWEVER, BE OFFERED AND THIS OFFERING CIRCULAR MAY BE DISTRIBUTED IN SWITZERLAND ON A PROFESSIONAL BASIS TO A LIMITED NUMBER OF PROFESSIONAL INVESTORS IN CIRCUMSTANCES SUCH THAT THERE IS NO PUBLIC OFFER.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

THIS OFFERING CIRCULAR AND ANY OTHER DOCUMENT PREPARED IN CONNECTION WITH THE OFFERING AND ISSUANCE OF THE SECURITIES MAY ONLY BE COMMUNICATED OR CAUSED TO BE COMMUNICATED IN THE UNITED KINGDOM TO A PERSON IN CIRCUMSTANCES SPECIFIED IN THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 IN WHICH SECTION 21(1) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 DOES NOT APPLY TO THE ISSUER.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with the sale of the Securities, each of the Co-Issuers (or the Issuer, in the case of the Subordinate Notes and the Preference Shares) will be required to furnish, upon request of a holder of a Security, to such holder and a prospective purchaser designated by such holder the information required to be made available 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 Secured Notes, the Trustee, (b) in the case of the Subordinate Notes, the Fiscal Agent or (c) 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.

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Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, differences in the actual allocation of the Collateral Debt Securities among asset categories from those assumed, the timing of acquisitions of the Collateral Debt Securities, the timing and frequency of defaults on the Collateral Debt Securities, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Collateral Debt Securities (particularly 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 any 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 Fiscal Agent, the Preference Share Paying Agent, the Collateral Advisor, the Initial Purchaser, the Placement Agent, any 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 Fiscal Agent, the Preference Share Paying Agent, the Collateral Advisor, the Initial Purchaser, the Placement Agent, any 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 (this "Offering Circular"). A glossary of certain defined terms appears at the back of this Offering Circular as Exhibit A. An index of defined terms appears at the back of this Offering Circular.

Securities:

U.S.$775,000,000 aggregate principal amount Class A-1A First Priority Senior Secured Floating Rate Notes due November 2046 (the "Class A-1A Notes").

U.S.$125,000,000 aggregate principal amount Class A-1B Second Priority Senior Secured Floating Rate Notes due November 2046 (the "Class A-1B Notes" and, together with the Class A-1A Notes, the "Class A-1 Notes").

U.S.$23,000,000 aggregate principal amount Class A-2 Third Priority Senior Secured Floating Rate Notes due November 2046 (the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes").

U.S.$18,700,000 aggregate principal amount Class B Fourth Priority Senior Secured Floating Rate Notes due November 2046 (the "Class B Notes").

U.S.$27,000,000 aggregate principal amount Class C Fifth Priority Senior Secured Floating Rate Notes due November 2046 (the "Class C Notes").

U.S.$11,000,000 aggregate principal amount Class D Sixth Priority Mezzanine Deferrable Floating Rate Notes due November 2046 (the "Class D Notes").

U.S.$15,000,000 aggregate principal amount Class E Seventh Priority Mezzanine Deferrable Fixed Rate Notes due November 2046 (the "Class E Notes").

4,000 Preference Shares, par value U.S.$0.01 per share (the "Preference Shares").

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

The Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes and Class C Notes are referred to herein as the "Secured Notes" or the "Offered Notes."

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The Class D Notes and the Class E Notes are referred to herein as the "Subordinate Notes."

The Secured Notes and the Subordinate Notes are collectively referred to herein as the "Notes."

The Notes and the Preference Shares are collectively referred to herein as the "Securities."

The Subordinate Notes and the Preference Shares are not being offered hereby. The Subordinate Notes and the Preference Shares are being offered by the Issuer in a privately negotiated transaction to Sunset Loan Holdings Trust ("SLHT"), a direct subsidiary of Sunset Financial Holdings, LLC ("SFH"), a Delaware limited liability company, and an indirect subsidiary of Sunset Financial Resources, Inc. ("SFR"), a Maryland corporation managed by Cohen Brothers Management, LLC, an Affiliate of the Collateral Advisor. None of the Initial Purchaser, the Placement Agent nor any of their respective affiliates nor any other person is acting as initial purchaser or distributor with respect to the Subordinate Notes or the Preference Shares.

The Secured 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 LaSalle Bank National Association, as trustee (in such capacity, together with its successors in such capacity, the "Trustee").

The Secured 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 Secured Notes, the Hedge Counterparty, the Collateral Advisor, the Collateral Administrator, the Fiscal Agent and the Trustee (collectively, the "Secured Parties"). See "Description of the Notes—Status and Security."

The Subordinate Notes will be issued pursuant to a deed of covenant dated as of the Closing Date (the "Deed of Covenant") by the Issuer and will be administered pursuant to a fiscal agency agreement dated as of the Closing Date (the "Fiscal Agency Agreement") between the Issuer and LaSalle Bank National Association, as fiscal agent (in such capacity, together with its successors and assigns in such capacity, the "Fiscal Agent").

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All of the Notes and the Preference Shares will be issued on or about August 3, 2006 (the "Closing Date").

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 will be administered 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, LaSalle 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-1A Notes are entitled to receive payments *pari passu* among themselves, all of the Class A-1B 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, all of the Class E 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, the relative order of seniority of payment of each Class of Notes on each Distribution Date is as follows: *first*, Class A-1A Notes, *second*, Class A-1B Notes, *third*, Class A-2 Notes, *fourth*, Class B Notes, *fifth*, Class C Notes, *sixth*, Class D Notes, and, *seventh*, Class E Notes, with (a) each Class of Notes (other than the Class E 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-1A Notes) in such list being "Subordinate" to each other Class of Notes that precedes such Class of Notes in such list.

Distributions to the Preference Shares will be subordinated to payments on the Notes.

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No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full.

During a Sequential Pay Period, no payment of principal of any Class of Notes will be made from Principal Proceeds until all principal of, and accrued and unpaid interest 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."

The Co-Issuers:

Kleros Real Estate CDO II, Ltd. (the "Issuer") is an exempted company incorporated under Cayman Islands law pursuant to the Issuer Charter. As of the Closing Date, the entire issued share capital of the Issuer will consist of (a) 250 ordinary shares, par value U.S.$1.00 per share (the "Ordinary Shares") and (b) 4,000 Preference Shares, par value U.S.$0.01 per share.

On or prior to the Closing Date, Sunset Real Estate Holdings, LLC ("SREH"), a wholly owned subsidiary of SLHT, is expected to acquire the Ordinary Shares of the Issuer.

Kleros Real Estate CDO II, 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 Secured Notes. The entire undivided limited liability company interest of the Co-Issuer is expected to be owned by SREH.

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

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 SREH, 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.

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The Collateral Advisor:

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 advisor (in such capacity, together with its successors in interest, the "Collateral Advisor"), pursuant to a collateral advisory agreement entered into between the Issuer and the Collateral Advisor on the Closing Date (the "Collateral Advisory Agreement").

Strategos is an Affiliate of the Placement Agent, Cohen Bros. & Company, LLC, a broker dealer that focuses on the financial services sector. Under the Collateral Advisory Agreement, the Collateral Advisor will advise the Issuer with respect to 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. On the Closing Date, SLHT, an indirect subsidiary of SFR, will purchase the Subordinate Notes and all of the Preference Shares. Although they are not required to do so, it is expected that SLHT or one or more Affiliates of the Collateral Advisor will hold the Subordinate Notes and the Preference Shares while the Offered Notes are outstanding. SFR is managed by Cohen Brothers Management, LLC, an Affiliate of the Collateral Advisor. See "Risk Factors—Risk Factors Relating to Conflicts of Interests and Dependence of the Collateral Advisor—Conflicts of Interest Involving the Collateral Advisor."

On the Closing Date, the Issuer will pay an upfront fee to the Collateral Advisor. No advisory fee will be payable to the Collateral Advisor as compensation for rendering its services under the Collateral Advisory Agreement. However, if Strategos is replaced as the Collateral Advisor by an entity that is not an Affiliate of Strategos, the replacement Collateral Advisor will be entitled to receive the Advisory Fee. See "Collateral Advisory Agreement—Compensation."

Use of Proceeds:

The gross proceeds received from the issuance and sale of the Securities will be approximately U.S.$998,700,000. The net proceeds from the issuance and sale of the Securities and the Up Front Payment (net of the Issuer Up Front Payment) are expected to be approximately U.S.$993,500,000, which reflects the payment by the Issuer from such gross proceeds of organizational and structuring fees, an upfront fee payable by the Issuer to the Collateral Advisor, expenses of the Co-Issuers (including, without limitation, the legal fees and

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expenses of counsel to the Co-Issuers, the Collateral Advisor 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 the offering (the "Offering") of the Securities (including fees payable to the Initial Purchaser in connection with the Offering) and the initial deposits into the Expense Account and the Reserve Account. Such net proceeds will be used by the Issuer to purchase a portfolio of interests in (a) RMBS and (b) CMBS that, in each case, satisfy the investment criteria described herein. See "Security for the Secured Notes." Pending the purchase of such portfolio, such net proceeds may be temporarily invested in Eligible Investments.

Interest Payments on the Notes:

The Class A-1A Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR (determined as described herein) *plus* 0.22%. The Class A-1B Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR (determined as described herein) *plus* 0.22%. The Class A-2 Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR (determined as described herein) *plus* 0.40%. The Class B Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR (determined as described herein) *plus* 0.50%. The Class C Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR (determined as described herein) *plus* 0.65%. The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* the lesser of (i) 3.00% and (ii) the Alternative Spread, if any. The Class E Notes will bear interest at a fixed rate *per annum* equal to 1.00%. Interest on the Floating Rate Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. LIBOR for the first Interest Period for all Floating Rate Notes will be an interpolated LIBOR for the period from the Closing Date to the first Distribution Date. Interest on the Fixed Rate Notes will be computed on the basis of a 360-day year of twelve 30-day months.

So long as any Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes or Class C Notes are outstanding, 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, the "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

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Distribution Date on which funds are available to pay such Class D Deferred Interest Amounts in accordance with the Priority of Payments.

So long as any Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes, Class C Notes or Class D Notes are outstanding, any interest due on the Class E Notes which is not paid as a result of the operation of the Priority of Payments on any Distribution Date (any such interest, the "Class E Deferred Interest Amount") shall be deferred and added to the Aggregate Outstanding Amount of the Class E Notes, and shall not be considered "due and payable" until the Distribution Date on which funds are available to pay such Class E Deferred Interest Amounts in accordance with the Priority of Payments.

Distributions on the Preference Shares:

On each Distribution Date, to the extent that 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 and certain other amounts in accordance with the Priority of Payments; *provided*, *however*, that if the Class D Notes or the Class E Notes remain outstanding on or after the August 2014 Distribution Date, then any Interest Proceeds that would otherwise be distributed to the Preference Share Paying Agent on any such Distribution Date will instead be used to pay principal *pro rata* of the Class D Notes and the Class E Notes based upon their respective principal amounts until the Class D Notes and the Class E Notes have been paid in full.

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 holders of the Preference Shares (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

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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 an Overcollateralization 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 will be used instead to repay principal of the Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes (or, in the case of the Class D Overcollateralization Test, solely the Class D Notes), in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments."

If a Rating Confirmation Failure occurs, Interest Proceeds that would otherwise be distributed to the Preference Shareholders will be applied to the payment of principal of the 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 November 2046 (with respect to each Class of Notes, the "Stated Maturity"). Each Class of Notes will mature at the Stated Maturity unless redeemed or repaid prior thereto. The average life of each Class of Notes and the duration of the Preference Shares are expected to 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: During the Reinvestment Period, any Available Reinvestment Funds will be held for reinvestment and will not be distributed on any Distribution Date that is not a Redemption Date or an Accelerated Maturity Date, except to the extent that, after the application of all other Principal Proceeds, any amount remains to be paid pursuant to clauses (1), (2), (5) and (8) of the Principal Proceeds Waterfall. On any Distribution Date on or prior to the last day of the Reinvestment Period, if the Cash Release Conditions are satisfied, the Collateral Advisor shall direct the Trustee to

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distribute any Available Reinvestment Funds as Principal Proceeds in accordance with the Priority of Payments. As a result, the Issuer is not expected to make any principal payments on the Notes from Principal Proceeds during the Reinvestment Period unless (x) the Cash Release Conditions are satisfied or (y) the Collateral Advisor does not find sufficient reinvestment opportunities within the 60-day time period described under "Security for the Secured Notes—Reinvestment Period." However, once the amount of CDS Sale Proceeds which have been reinvested during a 12 month period (together with any CDS Sale Proceeds on deposit in the Principal Collection Account) equals the Sale Proceeds Reinvestment Limit, all other CDS Sale Proceeds received during such 12 month period will be distributed as Principal Proceeds even if the Reinvestment Period has not ended. See "Description of the Notes—Principal and "Security for the Secured Notes—Reinvestment Period."

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 and Sale Proceeds received with respect to the Collateral Debt Securities and, during the Reinvestment Period, whether such funds are reinvested in Substitute Collateral Debt Securities.

On any Distribution Date which occurs during a Sequential Pay Period (subject to the Priority of Payments with respect to payment of principal of the Notes from Interest Proceeds), principal of the Notes will be paid in direct order of seniority, with the principal of Class A-1A Notes being paid prior to the payment of principal of Class A-1B Notes, the principal of the Class A-1B 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, the principal of Class C Notes being paid prior to the payment of the principal of Class D Notes and the principal of Class D Notes being paid prior to the payment of the principal of Class E Notes.

On any Distribution Date which occurs during a Pro Rata Pay Period, Principal Proceeds will be applied in accordance with the Priority of Payments to pay (i) *first*, the principal amount of the Class A-1A Notes, the Class A-1B Notes, the Class A-2 Notes, the Class B Notes and the Class C Notes, *pro rata*, in accordance with their Aggregate Outstanding

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Amounts (after giving effect to all payments of principal thereof on such Distribution Date from Interest Proceeds and Principal Proceeds) in an amount up to the Class A/B/C Pro Rata Principal Payment Cap, (ii) *second*, the principal amount of the Class D Notes in an amount up to the Class D Pro Rata Principal Payment Cap (after payment of the Interest Distribution Amount with respect to the Class D Notes to the extent not paid with Interest Proceeds) and (iii) *third*, the principal amount of the Class E Notes (after payment of the Interest Distribution Amount with respect to the Class E Notes to the extent not paid with Interest Proceeds), until paid in full.

A Sequential Pay Period will commence on the earliest to occur of (i) the first Determination Date on which an Event of Default has occurred and is continuing, (ii) the first Determination Date on which the Class A Sequential Pay Test is not satisfied and (iii) 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 as of the Ramp-Up Completion Date. If the Sequential Pay Period commences for any reason, a Pro Rata Pay Period may not commence on any future Distribution Date.

So long as any Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes or Class C Notes are outstanding, if the Class A/B/C Overcollateralization 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-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes or Class C Notes, certain fees and expenses, and distributions on the Preference Shares, will be used instead to redeem the principal of, *first*, the Class A-1A Notes, *second*, the Class A-1B Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes and, *fifth*, the Class C Notes, until the Class A/B/C Overcollateralization Test is satisfied 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-1A Notes, *second*, the Class A-1B Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes and, *fifth*, the Class C Notes, until the Class A/B/C Overcollateralization Test has been satisfied.

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So long as any Class D Notes are outstanding, if the Class D Overcollateralization Test is not satisfied on any Determination Date related to a Distribution Date, then Interest Proceeds that would otherwise be used to make payments on such Distribution Date in respect of interest on any Class E Notes, certain fees and expenses, and distributions on the Preference Shares, will be used instead to redeem the principal of the Class D Notes.

The Overcollateralization Tests will not apply during the Ramp-Up Period.

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 Secured Notes will, on any Distribution Date, be subject to mandatory redemption in the event that the Class A/B/C Overcollateralization Test applicable to any such 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 the Class A/B/C Overcollateralization Test to be satisfied.

The Class D Notes will, on any Distribution Date, be subject to mandatory redemption in the event that the Class D Overcollateralization Test is not satisfied on the related Determination Date. Any such redemption will be effected from Interest Proceeds to the extent necessary to cause the Class D Overcollateralization 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 "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

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be required to apply Interest Proceeds remaining after payment of interest on the Secured Notes and, to the extent that Interest Proceeds are insufficient, Principal Proceeds to the repayment of, *first*, the Class A-1A Notes, *second*, the Class A-1B Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes, *fifth*, the Class C Notes and, *sixth*, the Class D Notes (after payment of the Interest Distribution Amount on the Class D Notes), to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation.

If on any Distribution Date on or after the August 2014 Distribution Date the Class D Notes or the Class E Notes remain outstanding, any Interest Proceeds that would otherwise be released from the lien of the Indenture and paid to the Preference Share Paying Agent will be applied to pay principal *pro rata* of the Class D Notes and the Class E Notes based upon their respective principal amounts, until the Class D Notes and the Class E Notes have been paid in full. See "Description of the Notes—Priority of Payments—Interest Proceeds."

Optional Redemption and Tax Redemption of the Notes:

Subject to certain conditions described herein, on the Distribution Date occurring in August 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." As owners of the Preference Shares, SLHT and/or Affiliates of the Collateral Advisor will, in all cases, be entitled to vote as to whether such direction will be issued.

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

No Optional Redemption or Tax Redemption may be effected, however, unless the Available Redemption Funds are at least equal to an amount sufficient to pay (in

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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 August 2014, then an auction of the Collateral Debt Securities will be conducted by the Trustee on behalf of the Issuer, 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 of the Preference Shares."

Security for the Secured Notes: Pursuant to the Indenture, the Secured Notes (together with the Issuer's obligations to any Hedge Counterparty under the Hedge Agreement to the Collateral Advisor under the Collateral Advisory 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 Quarterly Interest Reserve Account, the Semi-Annual Interest Reserve Account, the Reserve 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 and the Issuer's rights in and to each Hedge Counterparty Collateral Account, (c) the rights of the Issuer under the Collateral Advisory Agreement, the Collateral Administration Agreement, the Administration Agreement, all agreements relating to each 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, but excluding Excepted Property (collectively, the "Collateral"). In the event of any

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realization on the Collateral, proceeds will be applied in accordance with the respective priorities established by the Priority of Payments.

The Subordinate Notes are not secured by the Collateral, and amounts payable to the Subordinate Notes will be released from the lien of the Indenture and paid to the Fiscal Agent for application to payment of the Subordinate Notes in accordance with the Fiscal Agency Agreement. On the Closing Date, the Class D Notes will be secured by a security interest in the Class D Collateral granted to the Fiscal Agent (as collateral agent for the Class D Noteholders) under the Fiscal Agency Agreement, which security interest will be subordinate to the security interest in the Collateral granted to the Trustee under the Indenture. On the Closing Date, the Class E Notes will be secured by a security interest in the Class E Collateral granted to the Fiscal Agent (as collateral agent for the Class E Noteholders) under the Fiscal Agency Agreement, which security interest will be subordinate to the security interest in the Collateral granted to the Trustee under the Indenture and the security interest in the Class D Collateral granted to the Fiscal Agent (as collateral agent for the Class D Noteholders) under the Fiscal Agency Agreement. On or after the Closing Date, the Issuer also may grant a security interest in the Collateral to the Fiscal Agent for the benefit of the Subordinate Notes, which security interest is required to be subordinate to the security interest in the Collateral granted to the Trustee under the Indenture. See "Description of the Notes—The Fiscal Agency Agreement."

Acquisitions and Dispositions of Collateral:

On the Closing Date, the Issuer will have purchased (or entered into agreements to purchase for settlement following the Closing Date) Collateral Debt Securities having an Aggregate Principal Balance of not less than U.S.$900,000,000.

The Issuer expects that, no later than August 28, 2006, 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 (together with all Principal Proceeds received on or after the Closing Date) of at least U.S.$1,000,000,000. All of the Collateral Debt Securities must have been assigned an investment grade rating by at least one Rating Agency at the time of acquisition by the Issuer.

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An investor or prospective investor in the Securities may request from the Trustee a list of the Collateral Debt Securities owned by the Issuer.

Ramp-Up Period. During the period (the "Ramp-Up Period") from and including the Closing Date to, and including, the Ramp-Up Completion Date, the Collateral Advisor, on behalf of the Issuer, may direct the Trustee to apply Uninvested Proceeds to purchase Collateral Debt Securities designated by the Collateral Advisor for inclusion in the Collateral.

Reinvestment Period. During the Reinvestment Period, the Issuer (at the direction of the Collateral Advisor) will be required (i) to reinvest CDS Sale Proceeds in Substitute Collateral Debt Securities, in accordance with the Eligibility Criteria and the Replacement Criteria; and (ii) to reinvest Collateral Principal Payments in Substitute Collateral Debt Securities, in accordance with the Eligibility Criteria and the Reinvestment Criteria. However, the Collateral Advisor will not be permitted to reinvest CDS Sale Proceeds in Substitute Collateral Debt Securities during any 12 month period if CDS Sale Proceeds in an amount equal to the Sale Proceeds Reinvestment Limit have been previously reinvested during such 12 month period. See "Security for the Secured Notes—Reinvestment Period," "—Eligibility Criteria" and "—Disposition of Collateral Debt Securities" herein.

The Issuer will not reinvest CDS Sale Proceeds and Collateral Principal Payments and will distribute such amounts as Principal Proceeds or Interest Proceeds, as applicable, if the Cash Release Conditions are satisfied. See "Description of the Notes—Principal and "Security for the Secured Notes—Reinvestment Period."

On any date on which the Class A-1A Notes are the Controlling Class, the Reinvestment Period shall be suspended (and no reinvestment shall be permitted hereunder except to complete purchases which the Issuer previously committed to make) from and after the first Measurement Date on which the Class A/B/C Overcollateralization Ratio is less than 100%, until the earlier of (i) the next Measurement Date on which the Class A/B/C Overcollateralization Ratio is at least 100% or (ii) the date on which a Majority of the Controlling Class gives written notice to the Issuer, the Trustee and the Collateral Advisor that reinvestment may be made.

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Liquidation of Collateral Debt Securities:	The Collateral Advisor is authorized to sell any Defaulted Security, Equity Security, Credit Risk Security, Written Down Security, or Withholding Tax Security if the conditions specified in the Indenture are satisfied. The Collateral Advisor is authorized to sell all of the Collateral Debt Securities in connection with an Optional Redemption, a Tax Redemption or an Auction Call Redemption, or following an Event of Default, if the conditions specified in the Indenture are satisfied. See "Security for the Secured Notes—Disposition of Collateral Debt Securities" herein. If the Notes and the Preference Shares have not been redeemed on or prior to the October 2046 Distribution Date, the Collateral Debt Securities, Eligible Investments and other Collateral will be liquidated, subject to certain limitations, and in accordance with certain procedures, which are set forth in the Indenture, and all net proceeds from such liquidation and all available cash will be applied pursuant to the Priority of Payments on the Stated Maturity of the Notes. 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.
Plan of Distribution:	The Offered Notes are being offered for sale in an initial distribution by the Co-Issuers, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS," the "Initial Purchaser") or Cohen Bros. & Company, LLC, as a placement agent (the "Placement Agent") to investors (a) in the United States, that (i) are "Qualified Institutional Buyers" (each, a "Qualified Institutional Buyer"), as defined in Rule 144A ("Rule 144A") under the Securities Act of 1933, as amended (the "Securities Act"), (ii) are Qualified Purchasers and (iii) are acquiring the Offered Notes for their own accounts for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A) and (b) outside the United States, that are not U.S. persons, as such term is defined in Regulation S ("Regulation S") under the Securities Act (each, a "U.S. Person") in offshore transactions in reliance on Regulation S and (c) in each case, in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. Offered Notes offered for sale to a U.S. Person will be offered only to Qualified Purchasers. A "Qualified Purchaser" is (i) a "qualified

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purchaser" as defined in the Investment Company Act of 1940, as amended (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."

The Subordinate Notes and the Preference Shares are not being offered hereby. It is anticipated that, on the Closing Date, the Issuer will privately place the Subordinate Notes and the Preference Shares with SLHT in a privately negotiated transaction. SLHT is an indirect subsidiary of SFR, a REIT that is managed by Cohen Brothers Management, LLC, an Affiliate of the Collateral Advisor.

Ratings:

It is a condition to the issuance of the Securities that the Class A-1A Notes be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's" and, together with Moody's, the "Rating Agencies"), that the Class A-1B Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by Standard & Poor's, that the Class C Notes be rated at least "Aa3" by Moody's and at least "AA-" by Standard & Poor's, that the Class D Notes be rated at least "Baa2" by Moody's and at least "BBB" by Standard & Poor's and that the Class E Notes be rated at least "Ba2" by Moody's and at least "BB" by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision at any time. 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 the repayment of principal thereof in accordance with the Priority of Payments. The Class D Notes and the Class E Notes may fail to be in an amount that is an integral multiple of U.S.$1,000 because of the addition to the principal amount

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	thereof of the Class D Deferred Interest Amount and the Class E Deferred Interest Amount, respectively. See "Description of the Notes—Form, Denomination, Registration and Transfer."
	The minimum number of Preference Shares to be issued to an investor will initially be 250, or integral multiples of one share 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 (or transferred) in a minimum number of 100 Preference Shares.
Form, Registration and Transfer of the Notes:	See "Description of the Notes—Form, Denomination, Registration and Transfer," "ERISA Considerations" and "Transfer Restrictions" herein.
Listing:	Application will be made to the Irish Stock Exchange for the Offered Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that such applications will be granted. No application will be made to list the Offered Notes on any other stock exchange. No application will be made to list the Subordinate Notes or the Preference Shares on any stock exchange. If any Class or Classes of Notes are admitted to the official list of the Irish Stock Exchange, the Issuer may at any time terminate the listing of such Class or Classes of Notes. 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).
Tax Matters:	See "Income Tax Considerations."
Benefit Plan Investors:	See "ERISA Considerations."

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RISK FACTORS

An investment in the Securities involves certain risks. Prospective investors should carefully consider the following risk factors, in addition to the matters set forth elsewhere in this Offering Circular, prior to investing in the Securities.

Risk Factors Relating to the Terms of the Securities

Investor Suitability. An investment in the Securities will not be appropriate for all investors. Structured investment products, like the Securities, are complex instruments, and typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. Any investor interested in purchasing Securities should conduct its own investigation and analysis of the product and consult its own professional advisers as to the risks involved in making such a purchase.

Limited Liquidity. There is currently no market for the Securities. Although the Initial Purchaser may from time to time make a market in any Class of Notes or the Preference Shares, the Placement Agent does not expect to make any such market and neither the Initial Purchaser nor the Placement Agent is under any obligation to do so. In the event that the Initial Purchaser or the Placement Agent commences any market making, the Initial Purchaser or the Placement Agent, as the case may be, may discontinue the same at any time. There can be no assurance that a secondary market for any of the Securities will develop, or if a secondary market does develop, that it will provide the holders of such Securities with liquidity of investment or that it will continue for the life of the Securities. In addition, the 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 Securities must be prepared to hold its 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 Secured Notes are limited recourse obligations of the Co-Issuers, payable solely from the Collateral Debt Securities and other Collateral pledged by the Issuer to secure the Secured Notes. None of the security holders, members, officers, directors, managers or incorporators of the Issuer, the Co-Issuer, the Trustee, the Fiscal Agent, any Hedge Counterparty or any of their respective guarantors, the Collateral Advisor, the Administrator, any Rating Agency, the Share Trustee, the Initial Purchaser, the Placement Agent, any of their respective affiliates and any other person or entity will be obligated to make payments on the Secured Notes. Consequently, the Secured Noteholders must rely solely on amounts received in respect of the Collateral Debt Securities and other Collateral pledged to secure the Secured Notes for the payment of principal thereof and interest thereon.

The Subordinate Notes are limited-recourse obligations of the Issuer and, except as described herein, are not secured by the Collateral Debt Securities or any other Collateral securing the Secured Notes or the obligations of the Issuer to any other Secured Parties. See "Description of the Notes—The Fiscal Agency Agreement." The Issuer has, pursuant to the Indenture, pledged substantially all of its assets to secure its obligations to the Secured Parties.

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There can be no assurance that the distributions on the Collateral Debt Securities and other Collateral 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 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 from Principal Proceeds until all principal of, and all accrued and unpaid interest and on, the Notes of each Class that is Senior to such Class and that remains 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, the holders of the most Senior Class of Secured 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, the failure to make payment in respect of interest on the Subordinate Notes on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Subordinate 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 Securities, such losses will be borne, *first*, by the holders of the Preference Shares, *second*, by the holders of the Class E Notes, *third*, by the holders of the Class D Notes, *fourth*, by the holders of the Class C Notes, *fifth*, by the holders of the Class B Notes, *sixth*, by the holders of the Class A-2 Notes, *seventh*, by the holders of the Class A-1B Notes and *eighth*, by the holders of the Class A-1A Notes.

The Notes Will Continue to be Paid in Accordance with the Priority of Payments Following an Event of Default; Liquidation of Collateral Following an Event of Default is Restricted. On any Distribution Date following the occurrence of an Indenture Event of Default and the acceleration of the maturity of the Notes (each such Distribution Date, unless such Indenture Event of Default is no longer continuing or such acceleration of the Notes has been rescinded, a "Post-Acceleration Distribution Date"), the Trustee will continue to make payments of interest and principal on the Notes in accordance with the same Priority of Payments as was applicable prior to such acceleration, and as a result a Subordinate Class of Notes may continue to receive payments of interest (and in limited circumstances payments of principal from Interest Proceeds) prior to the date on which the entire principal amount of the Senior Classes of Notes

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has been paid in full. The Collateral will not be liquidated unless one of the two conditions described under "Description of the Notes—The Indenture—Indenture Events of Default" is satisfied.

Following an Event of Default, the Trustee may not direct the liquidation of the Collateral unless (i) the Trustee has determined that the proceeds of such liquidation would be sufficient to pay amounts owed to the holders of the Notes and Hedge Counterparties, amounts owed to the Collateral Advisor in respect of the Advisory Fee, amounts owed to the Trustee in respect of the Trustee Fee and certain other expenses, (ii) the Trustee receives a direction to liquidate the Collateral from holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of each Class of Notes and each Hedge Counterparty, any of which may determine not to direct such liquidation, or (iii) in the case of an Indenture Event of Default described in clause (i) or (viii) of the definition thereof, the Trustee receives a direction from the holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of the Controlling Class (if the Class A-1A Notes are the Controlling Class). If any such condition is satisfied and the Collateral is liquidated, the proceeds of the Collateral will be applied to pay interest and principal on the Notes in accordance with the Priority of Payments. However, there can be no assurance that the conditions to liquidation of the Collateral will be satisfied.

Payments in Respect of the Preference Shares. The Issuer, pursuant to the Indenture, has pledged substantially all of its assets to secure the Secured 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. No distribution of Principal Proceeds to the Preference Shares will be made until the Notes have been paid in full. There can be no assurance that, after payment of principal of and interest on the Notes and other fees and expenses of the Co-Issuers in accordance with the Priority of Payments, the Issuer will have funds remaining to make distributions in respect of the Preference Shares. In addition, if the Class D Notes or the Class E Notes remain outstanding on any Distribution Date on or after the Distribution Date in August 2014, then any Interest Proceeds that would otherwise be released from the lien of the Indenture and paid to the Preference Share Paying Agent will be applied to pay principal *pro rata* of the Class D Notes and Class E Notes based upon their respective principal amounts, until the entire principal amounts of the Class D Notes and the Class E Notes have been paid in full. See "Description of the Notes—Priority of Payments." If an Event of Default occurs, as long as any Notes are outstanding, the holders of the most Senior Class of Notes, as the case may be, will be entitled to determine the remedies to be exercised under the Indenture, including in certain circumstances, the right to declare an acceleration of the Notes and, with the consent of the Hedge Counterparties, to initiate the liquidation and sale of all of the Collateral, without obtaining the consent of the holders of the Preference Shares. Subsequent to an acceleration of the maturity of the Notes after an Event of Default, distributions will not be made on the Preference Shares until the entire principal amount of and interest on the Notes has been paid in full. To the extent that any losses are suffered by any of the holders of any Securities, such losses will be borne in the first instance by the holders of the Preference Shares.

After payments on the Notes and the other expenses of the Issuer payable prior to payments to the Preference Share Paying Agent for distributions in respect of the Preference Shares, it is possible that there will be no Principal Proceeds available to pay to the Preference

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Share Paying Agent for distribution to the holders of the Preference Shares, and, even if there are Principal Proceeds available for payment on the Preference Shares, such proceeds may not be sufficient to pay the full Notional Amount of the Preference Shares on a Redemption Date. Holders of Preference Shares will therefore rely on distributions of Interest Proceeds for their ultimate return, and bear a high risk of losing all or part of their original investment.

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. 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" below.

Amounts released from the Lien of the Indenture will not be available to pay amounts due on the Notes. 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. On any Distribution Date during a Pro Rata Pay Period, Principal Proceeds will be applied 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 Overcollateralization Tests, Interest Proceeds 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.

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.

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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.

No Interest Coverage Tests. The Indenture will not provide for any interest coverage tests under which Notes would be redeemed in the event that Interest Proceeds for a Due Period fell below a minimum ratio in excess of the interest due on the Notes.

Auction Call Redemption. In addition, if the Notes have not been redeemed in full prior to the Distribution Date occurring in August 2014 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. In the event that the holders of the Subordinate Notes and the Preference Shareholders would not (taking into account distributions to be made on the related Redemption Date and on all previous Distribution Dates) receive, in the aggregate, the Class D/E/Preference Share Redemption Date Amount, no redemption may occur. 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. Any requirement of the Issuer to make termination payments under a Hedge Agreement may prevent the Issuer from satisfying the conditions for an 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 August 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. Any requirement of the Issuer to make termination payments under a Hedge Agreement may prevent the Issuer from satisfying the conditions for an Optional Redemption.

Tax Redemption. Subject to satisfaction of certain conditions, upon the occurrence of a Tax Event, the Issuer may redeem the Notes through a Tax Redemption on any Distribution Date, in whole but not in part, at the applicable Redemption Price therefor (i) at the written direction of the holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of any Affected Class or (ii) at the written direction of a Special-Majority-in-Interest of Preference Shareholders; *provided* that certain conditions 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. Any requirement of the Issuer to make termination payments under a Hedge Agreement may prevent the Issuer from satisfying the conditions for a Tax Redemption.

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Mandatory Repayment of the Notes. If the Class A/B/C Overcollateralization Test is not met, Interest Proceeds remaining after payment of interest on the Secured Notes and, if necessary, Principal Proceeds will be used to the extent that funds are available in accordance with the Priority of Payments and to the extent necessary to restore the Class A/B/C Overcollateralization Test, to certain minimum required levels, to repay principal of one or more Classes of Notes. If the Class D Overcollateralization Test is not met, Interest Proceeds remaining after payment of interest on the Class D Notes will be used to pay principal on the Class D Notes to the extent that funds are available in accordance with the Priority of Payments and to the extent necessary to cause the Class D Overcollateralization Test to be satisfied. The Class D Overcollateralization Test will not apply during the Ramp-Up Period. See "Description of the Notes—Mandatory Redemption." The Hedge Counterparties may terminate their Hedge Agreements in part, and as a result, the Issuer is likely to be required to make termination payments to such Hedge Counterparties. The Overcollateralization Tests will not be applicable during the Ramp-Up Period.

If a Rating Confirmation Failure occurs, Uninvested Proceeds and, after application of such Uninvested Proceeds, Interest Proceeds remaining after payment of interest on the Secured Notes and, after application of Interest Proceeds, Principal Proceeds, will be used on each Distribution Date thereafter for the payment of principal of the Notes in order of seniority, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation.

So long as a Senior Class of Notes remains 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 on any Distribution Date on or after the August 2014 Distribution Date any Class D Notes or Class E Notes remain outstanding, any Interest Proceeds that would otherwise be released from the lien of the Indenture and paid to the Preference Share Paying Agent will be applied to pay principal *pro rata* of the Class D Notes and the Class E Notes based upon their respective principal amounts, until the Class D Notes and the Class E Notes have been paid in full. See "Description of the Notes—Priority of Payments—Interest Proceeds." The foregoing would result in a reduction in distributions on the Preference Shares, which could adversely impact the returns of such holders.

Rating Confirmation Failure; Mandatory Redemption. 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 (such confirmation, a "Rating Confirmation"). 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

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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 the Notes (in sequential order), 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 redemptions 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 is likely to require the Issuer to make a termination payment to the Hedge Counterparty.

The Voting Rights Afforded to the Holders of Preference Shares May Be Adverse to Holders of Notes. It is anticipated that, on the Closing Date, the Issuer will privately place all of the Preference Shares with SLHT, a wholly owned direct subsidiary of SFH and a wholly owned indirect subsidiary of SFR, in a privately negotiated transaction. SFR is a Maryland real estate investment trust that is managed by Cohen Brothers Management, LLC, an Affiliate of the Collateral Advisor.

The holders of the Preference Shares have a variety of voting rights under the Indenture, the Preference Share Documents and the other transaction documents, including the right to direct an Optional Redemption or Tax Redemption, the exercise of which may materially and adversely affect the rights of the holders of Notes. See "Description of the Notes—Optional Redemption and Tax Redemption."

As a result, SLHT may exercise the voting rights of the Holders of the Preference Shares except as otherwise disclosed herein. See "Risk Factors—Risk Factors Relating to Conflicts of Interests and Dependence of the Collateral Advisor—Conflicts of Interest and Dependence on the Collateral Advisor."

In particular, for so long as SLHT or Affiliates of the Collateral Advisor hold at least 66⅔% of the Preference Shares, they will have the right to direct the Issuer to undertake an Optional Redemption if the conditions in the Indenture are met. To the extent that SLHT or Affiliates of the Collateral Advisor hold more than 33⅓% of the Preference Shares, they will be able to prevent the Issuer from undertaking an Optional Redemption. Although they are not required to do so, it is expected that SLHT or Affiliates of the Collateral Advisor will hold the Preference Shares and the Subordinate Notes while the Offered Notes are outstanding.

Liquidation of Collateral Upon Redemption of the Securities. An Optional Redemption, a Tax Redemption, an Auction Call Redemption or the occurrence of an Event of Default may require the Collateral Advisor 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 Advisor 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 Class D/E/Preference Share Redemption Date Amount on the Subordinate Notes and the Preference Shares. If the Collateral

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is 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.

Non-Petition Agreement. The Preference Share Paying Agent will covenant in the Preference Share Paying Agency Agreement 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.

Average Lives 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 and the timing and extent of any reinvestment by the Issuer, as well as the risks unique to investments in obligations of foreign issuers described above. Accordingly, the average lives of the Notes will be affected by (i) the rate of principal payments on the underlying Collateral Debt Securities, (ii) the receipt by the Issuer of Sale Proceeds and (iii) the timing and extent of reinvestment of such amounts by the Issuer. See "Maturity, Prepayment and Yield Considerations" and "Security for the Secured Notes."

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 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.

Issuer May Cause a Transfer of Offered Notes or Preference Shares. The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner or holder of (A) a Regulation S Note (or any interest therein) is a U.S. Person (within the meaning of Regulation S under the Securities Act) or (B) a Restricted Note (or any interest therein) is not a Qualified Institutional Buyer and also a Qualified Purchaser, then either of the Co-Issuers shall require, by notice to such beneficial owner or holder, as the case may be, that such beneficial owner or holder sell all of its right, title

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and interest to such Restricted Note (or any interest therein). See "Description of the Notes—Form, Denomination, Registration and Transfer—Transfer and Exchange of Notes." The Fiscal Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner or holder of a Subordinate Note is not both (i) either (A) a Qualified Institutional Buyer or (B) a Permitted Equity Investor, and (ii) a Qualified Purchaser, then the Issuer shall require, by notice to such holder that such holder sell all of its right and title in or to such Subordinate Note. See "Description of the Notes—Form, Denomination, Registration and Transfer—Transfer and Exchange of Notes." In addition, if the Issuer determines that a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitute plan assets under Section 401(c) of ERISA (or a wholly owned subsidiary of such a general account) purchased a Subordinate Note, or the Issuer determined that the purchaser of a Subordinate Note has become a Benefit Plan Investor, the Issuer (or the Collateral Advisor on its behalf) shall require, by notice to such Benefit Plan Investor, that such Benefit Plan Investor sell all of its right and title in or to such Subordinate Note in accordance with the Fiscal Agency Agreement. See "Description of the Notes—Form, Denomination, Registration and Transfer—Transfer and Exchange of Notes."

The Preference Share Paying Agency Agreement provides that, if, notwithstanding the restrictions contained herein, the Issuer determines that any holder of a Preference Share (x) is or becomes a Benefit Plan Investor or a Controlling Person and did not disclose in a Subscription Agreement (or a transfer certificate) that it was a Benefit Plan Investor or a Controlling Person or (y) is not both (i) either (A) a Qualified Institutional Buyer or (B) a Permitted Equity Investor and (ii) a Qualified Purchaser, the Issuer shall require, by notice to such holder that such holder sell all of its right and title in or to such Preference Share. See "Description of the Preference Shares—Form, Registration and Transfer—Transfer and Exchange of Preference Shares."

Modifications of Indenture. Pursuant to the terms of the Indenture, the Trustee and the Co-Issuers may, from time to time, execute one or more supplemental indentures that add to, change, modify or eliminate provisions of the Indenture. Approval for entering into such supplemental indentures does not in all cases require the consent of all of the holders of the outstanding Notes. In particular, the Indenture may be modified without obtaining the consent of holders of any Notes, among other things, in order to (i) take any action necessary or advisable to prevent the Issuer (without adverse effect upon the Issuer or holders of Securities) from failing to qualify as a Qualified REIT Subsidiary or (ii) modify the restrictions on and procedures for resale and other transfers of the Notes in accordance with any change in any applicable law or regulation (or interpretation thereof) or in order to enable the Issuer to rely upon any more favorable exemption from registration under the Securities Act or from registration as an investment company under the Investment Company Act. These amendments could, for example, require additional limitations and prohibitions on the circumstances in which the Issuer may sell Collateral Debt Securities or other assets, on the type of Collateral Debt Securities or other assets that the Issuer may acquire using the proceeds of Collateral Debt Securities or other assets that mature, are refinanced or otherwise sold, on the period during which such transactions may occur, on the level of transactions that may occur or on other provisions of the Indenture and could adversely affect the earnings of the Issuer and its ability to make payments on the Notes and distributions to the Preference Shares. Accordingly, supplemental indentures that result in material and adverse changes to the interests of holders of the Notes may be approved

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without the consent of holders of all of the Notes materially and adversely affected. See "Description of the Notes—The Indenture—Modification of the Indenture."

Risk Factors Relating to the Collateral Debt Securities.

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 "Ratings of the Offered Notes." 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 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 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, 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.

The Issuer may acquire Collateral Debt Securities that provide for periodic payments of interest in cash less frequently than monthly, *provided* that the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 10% of the Net Outstanding Portfolio Collateral Balance.

Asset-Backed Securities. The Collateral Debt Securities will consist of Asset-Backed Securities that are RMBS and CMBS. "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 (a) 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

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assure the servicing or timely distribution of proceeds to holders of such securities or (b) real estate mortgages, either static or revolving, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities; *provided* that, in the case of clause (b), such Asset-Backed Securities do not entitle the holders to a right to share in the appreciation in value of or the profits generated by the related real estate assets. See "Security for the Secured Notes—Asset-Backed Securities."

Asset-Backed Securities include but are not limited to securities for which the underlying collateral consists of assets such as home equity loans, leases, residential mortgage loans, commercial mortgage loans, auto finance receivables, credit card receivables and other debt obligations. Sponsors of 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.

Asset-Backed Securities carry coupons that can be fixed or floating. 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 assets.

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. 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.

In addition, 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 Securities to additional 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. Credit risk arises from losses due to defaults by the borrowers in the underlying collateral or the issuer's or servicer's failure to perform. These two elements can overlap as, for example, in the case of a servicer who does not provide adequate credit-review scrutiny to the serviced portfolio, leading to a higher incidence of defaults. Market risk arises from the cash-flow characteristics of the security, which for many Asset-Backed Securities tend to be reasonably predictable. The greatest variability in cash flows comes from credit performance,

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including the presence of wind-down or acceleration features designed to protect the investor if 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, such as 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 significant problem if concerns about credit quality, for example, lead investors to avoid the securities issued by the relevant special purpose entity. Some Asset-Backed Securities transactions may include a "liquidity facility," which requires the facility provider to advance funds to the relevant special-purpose entity should liquidity problems arise. However, where the originator is also the provider of the liquidity facility, the originator may experience similar market concerns if the assets it originates deteriorate and the ultimate practical value of the liquidity facility to the transaction may be questionable. Operations risk arises through the potential for misrepresentation of asset 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.

Further issues may arise based on discretionary behavior of the issuer within the terms of the securitization agreement, such as voluntary buybacks from, or contributions to, the underlying pool of loans when credit losses rise. A bank or other issuer may perform more than one role in the securitization process. An issuer can simultaneously serve as two or more of 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 performed 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.

Prepayment risk on Asset-Backed Securities, including the Collateral Debt Securities, arises from the uncertainty of the timing of payments of principal on the underlying securitized assets. The assets underlying a particular Collateral Debt Security may be paid more quickly than anticipated, resulting in payments of principal on the related Collateral Debt Security sooner than expected. Alternatively, amortization may take place more slowly than anticipated, resulting in payments of principal on the related Collateral Debt Security later than expected. In addition, a particular Collateral Debt Security may, by its terms, be subject to redemption prior to its maturity, resulting in a full or partial payment of principal in respect of such Collateral Debt Security. Similarly, defaults on the underlying securitized assets may lead to sales or liquidations and result in a prepayment of such Collateral Debt Security.

If the Issuer purchases a Collateral Debt Security at a premium, a prepayment rate that is faster than expected may result in a lower than expected yield to maturity on such security. Alternatively, if the Issuer purchases a Collateral Debt Security at a discount, slower than expected prepayments may result in a lower than expected yield to maturity on such security.

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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 these structures, at least two classes of Asset-Backed Securities are issued, with the senior class having a priority claim on the cash flows from the underlying pool of assets. The subordinated class must absorb credit losses on the collateral before losses can be charged to the senior portion. Because the senior class has this priority claim, cash flows from the underlying pool of assets must first satisfy the requirements of the senior class. Only after these requirements have been met will the cash flows be directed to service the subordinated class. 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 Asset-Backed Securities included in the Collateral may have been issued in transactions that have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. In certain circumstances, payments of interest may be reduced or eliminated for one or more payment dates. Additionally, as a result of cash flow being diverted to payments of principal on more senior classes, the average life of such securities may lengthen. Subordinate Asset-Backed Securities generally do not have the right to call a default or vote on remedies following a default unless more senior securities have been paid in full. As a result, a shortfall in payments to subordinate investors in Asset-Backed Securities will generally not result in a default being declared on the transaction and the transaction will not be restructured or unwound. Furthermore, because subordinate Asset-Backed Securities may represent a relatively small percentage of the size of the asset pool being securitized, the impact of a relatively small loss on the overall pool may disproportionately affect the holders of such subordinate security.

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 ownership or participation interests in pools of residential mortgage loans secured by one- to four-family residential properties. Such mortgage loans may be prepaid at any time. See "—Yield Considerations" above.

Credit risk arises from losses due to defaults by the borrowers in the underlying collateral and the servicer's failure to perform. 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, particularly 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.

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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 the Fannie Mae and Freddie Mac loan balance limitations. As a result, such portfolio of RMBS may experience increased losses.

The RMBS will be backed by non-conforming mortgage loans, which are mortgage loans that do not qualify for purchase by government-sponsored agencies such as Fannie Mae and Freddie Mac because of credit characteristics that do not satisfy Fannie Mae and Freddie Mac guidelines, including loans to mortgagors whose creditworthiness and repayment ability do not satisfy Fannie Mae and Freddie Mac underwriting guidelines and loans to mortgagors who may have a record of credit write-offs, outstanding judgments, prior bankruptcies and other negative credit items. Accordingly, non-conforming mortgage loans are likely to experience rates of delinquency, foreclosure and loss that are higher, and that may be substantially higher, than mortgage loans originated in accordance with Fannie Mae or Freddie Mac underwriting guidelines. The majority of mortgage loans made in the United States qualify for purchase by government-sponsored agencies. The principal differences between conforming mortgage loans and non-conforming mortgage loans include the applicable loan-to-value ratios, the credit and income histories of the related mortgagors, the documentation required for approval of the related mortgage loans, the types of properties securing the mortgage loans, the loan sizes and the mortgagors' occupancy status with respect to the mortgaged properties. As a result of these and other factors, the interest rates charged on non-conforming mortgage loans are often higher than those charged for conforming mortgage loans. The combination of different underwriting criteria and higher rates of interest may also lead to higher delinquency, foreclosure and losses on non-conforming mortgage loans as compared to conforming mortgage loans.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon 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 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 mortgage loans,

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the rate of prepayment on the underlying 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 would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS. RMBS are particularly susceptible to prepayment risks as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS, resulting in a reduction in yield to maturity for holders of such securities.

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.

RMBS have structural characteristics that distinguish them from other Asset-Backed Securities. The rate of interest payable on RMBS typically is 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 the Issuer on such RMBS. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors (including hard caps and lifetime caps). Many of

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the RMBS which the Issuer may purchase are subject to such available funds caps or other caps on the interest rate payable to holders of such securities. The effect of such caps is to reduce the rate at which interest is paid to the holders of such securities (including the Issuer), which would have an adverse effect on the Issuer's ability to pay interest on the Notes and to make distributions on the Preference Shares.

The Servicemembers' Civil Relief Act of 2003, as amended (the "Relief Act"), provides relief to mortgagors who enter into active military service and who were on reserve status but are called to active duty after the origination of their mortgage loans. Under the Relief Act, during the period of a mortgagor's active duty, the rate of interest that may be charged on such mortgagor's loan will be capped at a rate of 6% *per annum*, which may be below the interest rate that would otherwise have been applicable to such mortgage loan. In light of current United States involvement in Iraq, a number of mortgage loans in the mortgage pools underlying RMBS may become subject to the Relief Act. As a result, the weighted average interest rate on RMBS may be reduced. If such RMBS are subject to weighted average net coupon caps, investors' return on their investment in such RMBS will be similarly affected.

A large 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.

Furthermore, RMBS often are 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 the return of interest and principal may be assessed as a credit matter. However, securityholders do not have the legal status of secured creditors, and cannot 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.

Violations of Consumer Protection Laws May Result in Losses on Consumer Protected Securities. Applicable state laws generally regulate interest rates and other charges require licensing of originators and require specific disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the loans backing Home Equity Loan Securities, Residential A Mortgage Securities, Residential B/C Mortgage Securities and Manufactured Housing Securities (collectively, "Consumer Protected Securities"). Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of these laws, policies and principles may limit the ability of the issuer of a Consumer Protected Security to collect all or part of the principal of or interest on the underlying loans, may entitle a borrower to a refund of amounts previously paid and, in addition, could subject the owner of a mortgage loan to damages and administrative enforcement.

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

(1) the Federal Truth in Lending Act and Regulation Z promulgated under the Truth in Lending Act, which require particular disclosures to the borrowers regarding the terms of the loans;

(2) the Equal Credit Opportunity Act and Regulation B promulgated under the Equal Credit Opportunity Act, which, among other things, prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;

(3) the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation;

(4) the Fair Credit Reporting Act, which, among other things, regulates the use and reporting of information related to the borrower's credit experience;

(5) the Home Ownership and Equity Protection Act of 1994, which regulates the origination of high cost loans;

(6) the Depository Institutions Deregulation and Monetary Control Act of 1980, which, among other things, preempts certain state usury laws; and

(7) the Alternative Mortgage Transaction Parity Act of 1982, which, among other things, preempts certain state lending laws which regulate alternative mortgage transactions.

In addition to the laws described above, a number of legislative proposals have been introduced at both the federal, state and municipal level that is designed to discourage predatory lending practices. Some states have enacted, or may enact, laws or regulations that prohibit inclusion of some provisions in mortgage loans that have mortgage rates or origination costs in excess of prescribed levels, and require that borrowers be given certain disclosures prior to the consummation of such mortgage loans. In some cases, state law may impose requirements and restrictions greater than those in the Home Ownership and Equity Protection Act of 1994. An originator's failure to comply with these laws could subject the issuer of a Consumer Protected Security to monetary penalties and could result in the borrowers rescinding the loans underlying such Consumer Protected Security.

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

In some cases, liability of a lender under a mortgage loan may affect subsequent assignees of such obligations, including the issuer of a Consumer Protected Security. In particular, a lender's failure to comply with the Federal Truth in Lending Act could subject such lender and its assignees to monetary penalties and could result in rescission. Numerous class

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action lawsuits have been filed in multiple states alleging violations of these statutes and seeking damages, rescission and other remedies. These suits have named the originators and current and former holders, including the issuers of related Consumer Protected Securities. If an issuer of a Consumer Protected Security included in the Collateral were to be named as a defendant in a class action lawsuit, the costs of defending or settling such lawsuit or a judgment could reduce the amount available for distribution on the related Consumer Protected Security. In such event, the Issuer, as holder of such Consumer Protected Security, could suffer a loss.

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

In addition, numerous Federal and state statutory provisions, including the Federal bankruptcy laws and state debtor relief laws, may also adversely affect the ability of an issuer of a Consumer Protected Security to collect the principal of or interest on the loans, and holders of the affected Consumer Protected Securities may suffer a loss if the applicable laws result in these loans becoming uncollectible.

Commercial Mortgage-Backed Securities. A portion of the Asset-Backed Securities acquired by the Issuer will consist of commercial mortgage-backed securities meeting the Eligibility Criteria described herein ("CMBS").

The collateral underlying CMBS generally consists of mortgage loans secured by income producing property, such as multi-family housing or commercial property. In general, incremental risks of delinquency, foreclosure and loss with respect to an underlying commercial mortgage loan pool may be greater than those associated with residential mortgage loan pools. In part, this is caused by lack of diversity.

RMBS are typically backed by mortgage loan pools consisting of hundreds of mortgage loans and related mortgaged properties. Each residential mortgage loan represents a small percentage of the entire underlying collateral pool, the borrowers and mortgaged properties of which are geographically dispersed. Risk of delinquency, foreclosure and loss with respect to a residential mortgage loan pool can be analyzed statistically. By contrast, CMBS may be backed by an underlying mortgage pool of one or only a few mortgage loans. As a result, each commercial mortgage loan in the underlying mortgage pool represents a large percentage of the principal amount of CMBS backed by such underlying mortgage pool. A failure in performance of any one commercial mortgage loan in the underlying mortgage pool will have a much greater impact on the performance of the related CMBS. Credit risk relating to commercial mortgage-backed transactions is, as a result, property-specific. In this respect, commercial mortgage-backed transactions resemble traditional non-recourse secured loans. The collateral must be

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analyzed and transaction structured to address issues specific to an individual commercial property and its business.

Performance of a commercial mortgage loan depends primarily on the net income generated by the underlying mortgaged property. The market value of a commercial property similarly depends on its income-generating ability. As a result, income generation will affect both the likelihood of default and the severity of losses with respect to a commercial mortgage loan.

Successful management and operation of the related business (including property management decisions such as pricing, maintenance and capital improvements) will have a significant impact on performance of commercial mortgage loans. Issues such as tenant mix, success of tenant business, property location and condition, competition, taxes and other operational expenses, general economic conditions, governmental rules, regulations and fiscal policies, environmental issues and insurance coverage are among the factors that may impact both performance and market value.

Property specific issues with respect to the underlying mortgaged property, such as significant government regulation of a particular industry, reliance on franchise, management or operating agreements, transferability on purchase or foreclosure of related valuable assets such as liquor and other licenses and ease of conversion of a commercial property to an alternative use will impact both risk of loss and loss severity with respect to the underlying mortgage loan pool and the CMBS.

Hybrid Securities; Uncertainty of Reset Date and Current Spread. The Issuer may acquire Hybrid Securities. Hybrid Securities are backed by residential mortgage loans all or a portion of which consist of "hybrid" mortgage loans ("Underlying Hybrid Collateral"). A hybrid mortgage loan initially bears interest at a fixed rate for a specified period, after which the interest rate converts to a floating rate based on a specified index. Interest owed during this floating-rate period will be subject to periodic adjustment on reset dates that may not correspond to the reset dates for the applicable floating rate index. Interest rates on hybrid mortgage loans may also be subject to caps applicable on initial interest reset dates, periodic caps limiting variation of interest rates from reset date to reset date and overall maximum and minimum lifetime caps. The varying characteristics of hybrid mortgage loans result in a greater likelihood of timing and interest rate mismatches between interest payable on the collateral and interest payable on the Hybrid Securities, and accordingly subject Hybrid Securities to increased basis risk. The weighted average net mortgage rate on the collateral underlying a Hybrid Security will be affected by the fluctuations in the interest payable on hybrid mortgage loans. If, as a result of these fluctuations, the weighted average net mortgage rate on the collateral underlying a Hybrid Security is reduced, investors in the Hybrid Securities will experience a lower yield. In addition, notwithstanding increases in the applicable indices, mortgage interest rates on Underlying Hybrid Collateral may be subject to maximum lifetime or periodic caps, which will cause the yield on the related Hybrid Securities to be similarly limited. Furthermore, interest payable on Hybrid Securities may, as with other RMBS, be subject to available funds caps based on the weighted average net mortgage rates of the Underlying Hybrid Collateral pool. The pass through rate on any Hybrid Security subject to any available funds cap will be based on, or limited by, the weighted average of the net mortgage rates on one or more groups of related Underlying

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Hybrid Collateral and 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.

The date on which a Hybrid Security will cease to be a Fixed Rate Security and will become a Floating Rate Security (which will affect certain Eligibility Criteria, the Weighted Average Coupon Test and the Weighted Average Spread Test) is uncertain because the Underlying Hybrid Collateral in a pool will reset from a fixed interest rate to a floating interest rate on varying dates, and the Hybrid Security will not bear a specified spread over the London interbank offered rate (but instead the Underlying Hybrid Collateral will pay a variety of floating interest rates). As a result, the Collateral Advisor will have considerable discretion in determining the Reset Date and the Current Spread for each Hybrid Security.

Negative Amortization Securities. A portion of the Collateral Debt Securities may be comprised of Negative Amortization Securities that are secured by mortgage loans with negative amortization features. Because the rate at which interest accrues may change more frequently than payment adjustments on an adjustable mortgage loan, and because that adjustment of monthly payments may be subject to limitations, the amount of interest accruing on the remaining principal balance of such an adjustable rate mortgage loan at the applicable mortgage rate may exceed the amount of the monthly payment. Negative amortization occurs if the resulting excess is added to the unpaid principal balance of the related adjustable rate mortgage loan. For certain mortgage loans having a negative amortization feature, the required monthly payment is increased in order to fully amortize the mortgage loan by the end of its original term. Other such mortgage loans limit the amount by which the monthly payment can be increased, which results in a larger monthly payment at maturity. As a result, these negatively amortizing mortgage loans have performance characteristics similar to those of balloon loans. Negative amortization may result in increases in delinquencies and defaults on mortgage loans having a negative amortization feature, which may result in payment delays and losses on such Collateral Debt Securities.

Ramp-Up Period Purchases. The Issuer will use its commercially reasonable efforts to purchase or enter into binding agreements to purchase, on or before August 28, 2006, Collateral Debt Securities having an Aggregate Principal Balance (together with all Principal Proceeds received on or after the Closing Date) of not less than U.S.$1,000,000,000.

Whether or not the Issuer has succeeded in acquiring Collateral Debt Securities having an Aggregate Principal Balance (together with all Principal Proceeds received on or after the Closing Date) of U.S.$1,000,000,000 by the Ramp-Up Completion Date, if any of the Collateral Quality Tests or Overcollateralization Tests are not satisfied on the Ramp-Up Completion Date, a Rating Confirmation Failure may occur. Following a Rating Confirmation Failure, Uninvested Proceeds, Interest Proceeds remaining after payment of interest on the Secured Notes 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 "Description of the Notes—Mandatory Redemption" and "Security for the Secured Notes—Ramp-Up Period."

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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 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. If the first Distribution Date occurs prior to the occurrence of a Rating Confirmation or a Rating Confirmation Failure, an amount equal to the Interest Excess will be withdrawn from the Uninvested Proceeds Account and transferred to the Payment Account for application as Interest Proceeds on such Distribution Date.

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 Securities. Reduced liquidity and lower volumes of trading in certain Collateral Debt Securities, in addition to the restrictions on investment contained in the Eligibility Criteria, could reduce the rate at which the Collateral Advisor 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 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.

Limited Authority to Dispose of Collateral Debt Securities. The provisions of the Indenture dealing with sales and purchases of Collateral Debt Securities will restrict the Issuer from disposing of any Collateral Debt Security, except a Defaulted Security, Written Down Security, Withholding Tax Security, Equity Security or Credit Risk Security, and will impose restrictions on the disposition of those types of Collateral Debt Securities, including a requirement that the Collateral Advisor make an irrevocable decision, within five Business Days following a Collateral Debt Security becoming one of those types of Collateral Debt Securities, whether to dispose of such Collateral Debt Security. If the Collateral Advisor fails to make such election within such time period, then such Collateral Debt Security may not be sold or otherwise disposed of and must remain part of the Collateral. Moreover, no Collateral Debt Security may be sold for the primary purpose of recognizing gains or decreasing losses resulting from market value changes. These trading restrictions mean that the Issuer may be required to hold a Defaulted Security, Written Down Security, Withholding Tax Security, Equity Security or Credit Risk Security which the Collateral Advisor otherwise would have sold to minimize losses or to maximize gains. As a result, greater losses on the portfolio of Collateral Debt Securities may be sustained and there may be insufficient proceeds on any Distribution Date to pay in full any expenses of the Issuer or any amounts payable to the Trustee, the Collateral Administrator or the

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Hedge Counterparty (all of which amounts are payable prior to payments in respect of the Notes) and the principal of and interest on the Notes. See "Security for the Secured Notes—Disposition of Collateral Debt Securities" and "—Reinvestment Period" herein.

Reinvestment Risk. During the Reinvestment Period, the Collateral Advisor will be required to use its best efforts (i) to reinvest CDS Sale Proceeds in Substitute Collateral Debt Securities in compliance with the Eligibility Criteria and the Replacement Criteria and (ii) to reinvest Collateral Principal Payments in Substitute Collateral Debt Securities in compliance with the Eligibility Criteria and the Reinvestment Criteria. However, the Collateral Advisor will not be permitted to reinvest CDS Sale Proceeds in Substitute Collateral Debt Securities during any 12 month period if CDS Sale Proceeds in an amount equal to the Sale Proceeds Reinvestment Limit have been previously reinvested during such 12 month period. The Issuer will not reinvest CDS Sale Proceeds and Collateral Principal Payments and will distribute such amounts as Principal Proceeds or Interest Proceeds, as applicable, if the Cash Release Conditions are satisfied. Such potential reinvestment (or lack thereof) may have an adverse effect on the value of the Collateral Debt Securities and on the ability of the Issuer to make payments on the Notes and Preference Shares. The impact, including any adverse impact, of the reinvestment (or lack of reinvestment) of the Sale Proceeds or Collateral Principal Payments during the Reinvestment Period, on the Noteholders would be magnified by the leveraged nature of such respective Classes of Notes.

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

Early Termination of the Reinvestment Period. Although the Reinvestment Period is expected to terminate on the Distribution Date occurring in August 2009, the Reinvestment Period may terminate prior to such date if (i) the Notes are redeemed in a Tax Redemption as described under "Description of the Notes—Optional Redemption and Tax Redemption," prior to the August 2009 Distribution Date or (ii) an Event of Default occurs. In addition, the Collateral Advisor will not be permitted to reinvest CDS Sale Proceeds in any Substitute Collateral Debt Security during any 12 month period if CDS Sale Proceeds in an amount equal to the Sale Proceeds Reinvestment Limit have been previously reinvested during such 12 month period. See "—Reinvestment Period" and "—Disposition of Collateral Debt Securities" below. If the Reinvestment Period terminates (or reinvestments are otherwise not permitted) prior to the Distribution Date occurring in August 2009, such early termination or

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inability to reinvest may affect the expected average lives of the Notes described under "Maturity, Prepayment and Yield Considerations."

Illiquidity of Collateral Debt Securities. Most of the Collateral Debt Securities purchased by the Issuer will have no, or only a limited, trading market. The Issuer's investment in illiquid Collateral Debt Securities may restrict its ability to dispose of investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities, although the Issuer is generally prohibited by the Indenture from selling Collateral Debt Securities except under certain limited circumstances described under "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 Securities will be used to purchase Collateral Debt Securities having an aggregate principal amount of not less than U.S.$900,000,000. 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 Advisor (on behalf of the Issuer) and, accordingly, will be dependent upon the judgment and ability of the Collateral Advisor in investing and managing the proceeds of the Notes and in identifying investments over time. No assurance can be given that the Collateral Advisor (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.

Credit Ratings. Credit ratings of debt securities (including the Securities and any Pledged Collateral Debt Security purchased by the Issuer) represent the rating agencies' opinions regarding their credit quality, and are not a guarantee of quality. A credit rating is not a recommendation to buy, hold or sell securities and is subject to revision at any time. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value, and therefore, credit ratings do not fully reflect all risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, and the credit quality of a debt security may be worse than a rating indicates.

International Investing. The Collateral Debt Securities may include obligations of Qualifying Foreign Obligors. See clause (2) of the Eligibility Criteria under "Security for the Secured 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;

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(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 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

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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 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 E Notes, 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, then by the holders of the Class A-1B Notes and then by the holders of the Class A-1A 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 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 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 Securities, there can be no assurance that a holder of 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.

Risk Factors Relating to Conflicts of Interest, Ownership of the Co-Issuers and Dependence on the Collateral Advisor

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

Conflicts of Interest Involving the Collateral Advisor. Various potential and actual conflicts of interest may arise from the advisory, investment and other activities engaged in by the Collateral Advisor, its Affiliates and their respective clients and employees, including its affiliated broker-dealer, Cohen Bros. & Company, LLC, for their own accounts or for their

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respective client accounts. The Collateral Advisor 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 Advisor and its 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 Advisor may possess information relating to issuers of Collateral Debt Securities which is not known to the individuals at the Collateral Advisor responsible for monitoring the Collateral Debt Securities and performing the other obligations of the Collateral Advisor under the Collateral Advisory 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 Advisor and its Affiliates may in their discretion (except as provided below under "Security for the Secured 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 Advisor 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 Advisor and/or its Affiliates manage or advise. The Collateral Advisor 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 Advisor and/or its Affiliates manage or advise. Furthermore, the Collateral Advisor and its Affiliates may make an investment on their own behalf without offering the investment opportunity to, or the Collateral Advisor making any investment on behalf of, the Issuer. Affirmative obligations may arise in the future, whereby the Collateral Advisor and/or its Affiliates are obligated to offer certain investments to funds or accounts that they manage or advise before or without the Collateral Advisor's offering those investments to the Issuer. The Collateral Advisor 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 Advisor 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 Advisor will devote as much time to the Issuer as the Collateral Advisor deems appropriate, the officers and employees may have conflicts in allocating their time and services among the Issuer and other accounts now or hereafter advised by the Collateral Advisor and/or its Affiliates. The policies of the Collateral Advisor are such that certain employees of the Collateral Advisor may have or obtain

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information that, by virtue of the Collateral Advisor's internal policies relating to confidential communications, cannot or may not be used by the Collateral Advisor on behalf of the Issuer. In addition, the Collateral Advisor and its Affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Collateral Advisor 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 Advisory Agreement place significant restrictions on the Collateral Advisor's ability to advise the Issuer to buy or sell securities for inclusion in the Collateral, and the Collateral Advisor is subject to compliance with such restrictions. Accordingly, during certain periods or in certain specified circumstances, the Issuer may be unable to buy or sell securities or to take other actions that the Collateral Advisor might consider in the best interest of the Issuer and the Noteholders.

The Collateral Advisor 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 Advisor 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 Advisor may furnish investment management and advisory services to others who may have investment policies similar to those followed by the Collateral Advisor 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 Advisor 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 Advisor 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 Advisor 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 Advisor may possess information relating to the Collateral Debt Securities that is not known to the individuals at the Collateral Advisor responsible for monitoring the Collateral Debt Securities and performing other obligations under the Collateral Advisory Agreement. In addition, Affiliates and clients of the Collateral Advisor 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 Advisor or an Affiliate of the Collateral Advisor 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 Advisor and its Affiliates may make investment decisions for their own account or for the accounts of others, including other special-

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purpose entities organized to issue collateralized debt obligations, that may be the same as or different from those made by the Collateral Advisor on behalf of the Issuer. The Collateral Advisor or an Affiliate of the Collateral Advisor 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 Advisor may consider its relationships with other clients (including companies the securities of which are pledged to secure the Notes) and its Affiliates. The Collateral Advisor may decline to make a particular investment for the Issuer in view of such relationships. The Collateral Advisor 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 Advisor. The effects of some of the actions described in this section may have an adverse impact on the market from which the Collateral Advisor seeks to buy, or to which the Collateral Advisor seeks to sell securities on behalf of the Issuer. In providing services to other clients, the Collateral Advisor and its Affiliates may recommend activities that would compete with or otherwise adversely affect the Issuer.

Pursuant to the Collateral Advisory Agreement, the Issuer is permitted (i) to purchase Collateral Debt Securities from the Collateral Advisor or any Affiliate of the Collateral Advisor as principal and (ii) to purchase Collateral Debt Securities from any account or portfolio for which the Collateral Advisor or any of its Affiliates acts as investment adviser. In the foregoing situations, the Collateral Advisor and its Affiliates may have a potentially conflicting division of loyalties regarding both parties in the transaction.

On or prior to the Closing Date, SREH, a wholly owned subsidiary of SLHT, is expected to acquire the Ordinary Shares of the Issuer. SLHT has informed the Issuer that it is a subsidiary of SFR, a REIT that is managed by Cohen Brothers Management, LLC, an Affiliate of Collateral Advisor, pursuant to an interim management agreement dated April 27, 2006 (the "Interim Management Agreement"). See "Collateral Advisor—Management of SFR; Merger of SFR and Alesco." It is anticipated that, on the Closing Date, SLHT will acquire the Subordinate Notes and all of the Preference Shares from the Issuer in a privately negotiated transaction. The Collateral Advisor, its Affiliates and client accounts for which the Collateral Advisor or its Affiliates act as investment advisor may at times also own other Securities.

On the Closing Date, SLHT will purchase all of the Preference Shares. For so long as SLHT or Affiliates of the Collateral Advisor hold at least 66⅔% of the Preference Shares, they will have the right to direct the Issuer to undertake an Optional Redemption if the conditions in the Indenture are met. To the extent that SLHT or Affiliates of the Collateral Advisor hold more than 33⅓% of the Preference Shares, they will be able to prevent the Issuer from undertaking an Optional Redemption. Although they are not required to do so, it is expected that SLHT or Affiliates of the Collateral Advisor will hold the Preference Shares and the Subordinate Notes while the Offered Notes are outstanding. However, SLHT, the Collateral Advisor, its Affiliates and client accounts are not required to hold any Securities, and may at any

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time sell any Securities held by them (including the Preference Shares and Notes purchased by them on the Closing Date). SLHT or the Collateral Advisor (on behalf of SLHT) may pledge or otherwise assign all or a portion of its right to receive payment of Advisory Fees and dividends and other distributions on Preference Shares owned by it for the purpose of financing its acquisition of Preference Shares.

Any Securities held by the Collateral Advisor or any Affiliate of the Collateral Advisor or any Securities over which the Collateral Advisor or any of its Affiliates have discretionary voting authority (the "Collateral Advisor Securities"), in each case will have no voting rights with respect to any vote (i) in connection with the removal of the Collateral Advisor or (ii) increasing the rights or decreasing the obligations of the Collateral Advisor, and will be deemed not to be outstanding in connection with any such vote; *provided, however*, that any such Collateral Advisor Securities will have voting rights and will be deemed outstanding with respect to all other matters as to which holders of Securities are entitled to vote.

As a holder of Securities, the interests and incentives of the Collateral Advisor will not necessarily be completely aligned with those of the other holders of the Securities (or of the holders of any particular Class of Notes). Accordingly, the ownership of Preference Shares and Notes by one or more of the Collateral Advisor's Affiliates may give the Collateral Advisor an incentive to take actions that vary from the interests of the other holders of the Securities. In addition, the ownership of the Preference Shares and the Subordinate Notes by SLHT may give the Collateral Advisor an incentive to take actions that vary from the interests of the holders of the Offered Notes. In particular, if the Issuer is treated by SFR as a Qualified REIT Subsidiary, the Issuer is indirectly subject to restrictions on its investments under its organizational and offering documents, the U.S. securities laws and the Code, and is indirectly subject to various requirements which SFR must satisfy in order for SFR to maintain its status as a REIT under the Code. As the manager of SFR's investment in the Issuer, the Collateral Advisor will take these restrictions and requirements into consideration although they may result in its taking actions which vary from (or refrain from taking actions which would be in) the interests of the holders of the Offered Notes.

Pursuant to the Collateral Advisory Agreement, the Issuer will pay an upfront fee of $2,000,000 to the Collateral Advisor on the Closing Date. In addition, the Issuer will reimburse the Collateral Advisor for its Administrative Expenses on an ongoing basis in accordance with the Priority of Payments, and will also indemnify the Collateral Advisor under certain circumstances set forth in "The Collateral Advisory Agreement." Such payments may have an adverse effect on the Issuer and the Noteholders.

No provision in the Collateral Advisory Agreement prevents the Collateral Advisor 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 Fiscal Agent, the holders of the Securities or any Hedge Counterparty. Without limiting the generality of the foregoing, the Collateral Advisor, 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

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unrelated to the Collateral Advisory 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. In addition, Cohen Bros. & Company, LLC, the Collateral Advisor's affiliated broker-dealer, may also act as a placement agent with respect to the Securities. Services of the kind described in this paragraph may lead to conflicts of interest with the Collateral Advisor, and may lead individual officers or employees of the Collateral Advisor to act in a manner adverse to the Issuer.

The Collateral Advisor will be required to 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 Advisor has no obligation to obtain the lowest prices available. In pursuit of the objective of obtaining the best execution, the Collateral Advisor may take into consideration all factors the Collateral Advisor 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 Advisor or its Affiliates by brokers and dealers (which broker and/or dealer may or may not be Cohen Bros. & Company, LLC, the Collateral Advisor's affiliated broker-dealer. Any execution or transaction with Cohen Bros. & Company, LLC, the Collateral Advisor'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 Advisor and/or its Affiliates. The Collateral Advisor 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 Advisor or with accounts of the Affiliates of the Collateral Advisor if in the Collateral Advisor's sole judgment such aggregation would result in an overall economic benefit to the Issuer, taking into consideration, among other things, the availability of purchasers or sellers, the selling or purchase price, brokerage commission and other expenses. However, no provision in the Collateral Advisory Agreement requires the Collateral Advisor 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 Advisor (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 Advisor to be equitable over time for all accounts involved (taking into account constraints imposed by the Eligibility Criteria).

The Collateral Advisor may also effect client cross-transactions where the Collateral Advisor causes a transaction to be effected between the Issuer and another account advised by it or any of its Affiliates. In addition, with the prior authorization of the Issuer, which can be revoked at any time, the Collateral Advisor 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

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responsibilities regarding, both parties to the transaction. By purchasing a Security of the Issuer, a Holder is deemed to have consented to the Collateral Advisor effecting client cross-transactions and agency cross-transactions under the circumstances described herein and the procedures described herein relating to principal transactions with the Collateral Advisor and/or its Affiliates. Also with the prior authorization of the Issuer and in accordance with Section 11(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and regulation 11a2-2(T) thereunder (or any similar rule that may be adopted in the future), the Collateral Advisor 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 Advisor anticipate that the commissions, mark-ups and mark-downs charged by the Affiliates will generally be competitive, the Collateral Advisor 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.

Neither Cohen Bros. & Company, LLC nor SFR will have any responsibility for, or liability with regard to, the obligations of the Collateral Advisor under the Collateral Advisory Agreement.

Conflicts of Interest Involving the Placement Agent. Certain of the Collateral Debt Securities acquired or to be acquired by the Issuer may consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which Cohen Bros. & Company, LLC or an Affiliate thereof has acted as underwriter, agent, placement agent or dealer or for which Cohen Bros. & Company, LLC or an Affiliate thereof has acted as lender or provided other commercial or investment banking services. Cohen Bros. & Company, LLC or an Affiliate thereof may structure issues of Collateral Debt Securities and arrange to place such Collateral Debt Securities with the Issuer. In addition, Cohen Bros. & Company, LLC or its Affiliates may from time to time enter into derivative transactions with third parties with respect to the Securities or with respect to Collateral Debt Securities acquired by the Issuer, and Cohen Bros. & Company, LLC or its Affiliates may, in connection therewith, acquire (or establish long, short or derivative financial positions with respect to) Securities, Collateral Debt Securities or on or more portfolios of financial assets similar to the portfolio of Collateral Debt Securities acquired by (or intended to be acquired by) the Issuer. The Placement Agent or its Affiliates may purchase Collateral Debt Securities from the Issuer or may sell Collateral Debt Securities to the Issuer.

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 Cohen Bros. & Company, LLC (or an Affiliate thereof) were or are the most favorable terms available in the market at the time from other potential counterparties. A placement agency fee may be paid to the Placement Agent in connection with the offering of the Securities.

Certain Conflicts of Interest Involving the Initial Purchaser. Certain of the Collateral Debt Securities acquired or to be acquired by the Issuer will 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 the Initial Purchaser or an Affiliate of the Initial Purchaser has acted as

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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. In addition, Merrill Lynch International ("MLI") or Merrill Lynch Capital Services, Inc. ("MLCS"), each of which is an affiliate of the Initial Purchaser, may act as Hedge Counterparty under one or more Hedge Agreements with the Issuer.

The Initial Purchaser or an Affiliate of the Initial Purchaser (or an investment vehicle advised by the Initial Purchaser) may purchase Notes on the Closing Date. As a result, the Initial Purchaser (or such Affiliate or fund) may exercise all of the rights of a Noteholder.

An Affiliate of the Initial Purchaser may enter into credit derivative transactions under which it "sells" protection to a holder or holders of the Class A-1A Notes, and in such event the Affiliate of the Initial Purchaser may be entitled to exercise the voting rights of the Controlling Class. When it exercises rights as a Noteholder (or the rights of the Controlling Class pursuant to the credit derivatives transaction), the Initial Purchaser (or such Affiliate or fund) will act in its own commercial interests and will have no obligation to consider the effect of its actions on the Issuer, the Noteholders or the Preference Shareholders. The Initial Purchaser (together with its Affiliates) may own Securities which enable it to determine whether or not an Optional Redemption, a Tax Redemption or an Auction Call Redemption will occur, whether the Collateral will be liquidated following an Event of Default and other important matters to be decided by holders of the Securities.

On or after the Closing Date, the Initial Purchaser and its Affiliates may purchase other Securities.

An underwriter's fee will be paid to the Initial Purchaser in connection with the offering of the Offered Notes.

These activities 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 Purchaser (or an Affiliate thereof) were or are the most favorable terms available in the market at the time from other potential counterparties. None of the Initial Purchaser or any of its affiliates will act as fiduciaries for the Issuer in any of the capacities listed above. 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 own commercial interests and will have no obligation to consider the effect of its actions on the Issuer, Noteholders or Preference Shareholders.

Potential Conflicts of Interest with the Trustee and the Fiscal Agent. In certain circumstances, the Trustee, the Fiscal Agent or their respective Affiliates may receive compensation in connection with the Trustee's, the Fiscal Agent's (or such Affiliate's) investment in certain Eligible Investments from the managers of such Eligible Investments.

Removal of the Collateral Advisor. The Collateral Advisor may be removed and replaced as the Collateral Advisor under the circumstances described under "The Collateral Advisory Agreement—Removal, Resignation and Assignment." Such termination may become effective without the approval of holders of all of the Notes and Preference Shares. The

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Collateral Advisor may not be removed by the Issuer unless "cause" exists. The Trustee has no obligation to determine if "cause" exists.

Purchase of Collateral Debt Securities. All or a substantial portion of the Collateral Debt Securities purchased by the Issuer on the Closing Date will be purchased from portfolios of Collateral Debt Securities selected by the Collateral Advisor and held by MLI, an affiliate of MLPFS, pursuant to warehousing agreements between MLI and the Collateral Advisor. Some of the Collateral Debt Securities subject to such warehousing agreements may have been originally acquired by MLI from the Collateral Advisor 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 Advisor 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 Advisory 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 by MLI (or an Affiliate of MLI) with respect to such Collateral Debt Securities. Accordingly, due to the method for calculating such purchase price, the Issuer will bear the risk of market changes subsequent to the acquisition of such Collateral Debt Securities and related hedging arrangements by MLI (or an Affiliate of MLI) as if it had acquired such Collateral Debt Securities and entered into such hedging position directly at the time of purchase by MLI and not the Closing Date.

MLI may earn a profit on its sale of the Collateral Debt Securities to the Issuer, and will be entitled to retain any interest income that it receives on such Collateral Debt Securities.

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 Advisor and Key Personnel. The performance of the portfolio of Collateral Debt Securities depends heavily on the skills of the Collateral Advisor 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 Advisor and certain of the officers and employees of the Collateral Advisor to whom the task of selecting and monitoring

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the Collateral has been assigned or delegated. Certain employment arrangements between those officers and employees and the Collateral Advisor may exist, but the Issuer is not, and will not be, a direct beneficiary of such arrangements, which 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 Advisor to manage the Issuer's investments could have a significant adverse effect on the performance of the Issuer if suitable replacements are not hired or otherwise available to perform such functions. See "Collateral Advisor" and "The Collateral Advisory Agreement."

Ownership of the Issuer and the Co-Issuer by SREH. As of the Closing Date, all of the Preference Shares and Subordinate Notes are expected to be held by SLHT and all of the Ordinary Shares and limited liability company interests of the Co-Issuer are expected to be held by SREH. SLHT and SREH are direct or indirect wholly owned subsidiaries of SFR.

The rights of SREH, as holder of the Issuer's Ordinary Shares, will entitle it to appoint a majority of the board of directors of the Issuer; *provided*, that the Issuer's Amended and Restated Memorandum and Articles of Association require that at all times all of the Issuer's directors be independent from the Collateral Advisor. The directors of the Issuer may be removed and replaced by the owner of a majority of the Issuer's ordinary shares. SREH will have the right under Cayman Islands law to pass a resolution effecting the voluntary winding up of the Issuer (which is the proceeding under Cayman Islands law comparable to a voluntary bankruptcy proceeding under U.S. law). The right of SREH to take such action will not be constrained by placing the ordinary shares of the Issuer in a trust (as is typically done in CDOs), but the limited liability company agreement of the ordinary shareholder will provide that SREH will not pass a resolution to voluntarily wind up the Issuer during such time as the Secured Notes are outstanding. There can be no assurance that SREH will comply with such covenant.

Subsequent to the Closing Date, without obtaining the consent of holders of the Offered Securities or the Issuer, SREH may transfer the Ordinary Shares and/or the limited liability company interests of the Co-Issuer to another subsidiary of SFR or to an unrelated third party (a "Transferee"), in which event the expected U.S. Federal income tax treatment of the Issuer described herein would not be achieved and the Issuer and Co-Issuer could become subject to the credit risk of such Transferee.

Moreover, in the event that any of SREH, SLHT, SFH, SFR or the Transferee becomes the subject of a bankruptcy case or other insolvency proceeding, it is possible that the creditors of any of SREH, SLHT, SFH, SFR or the Transferee may seek to substantively consolidate the assets and liabilities of the Issuer with those of SREH, SLHT, SFH, SFR or the Transferee in that insolvency proceeding. There can be no assurance that the assets and liabilities of the Issuer would not be substantively consolidated in any bankruptcy or insolvency proceeding of SREH, SLHT, SFH, SFR or the Transferee and, if that were to occur, the Collateral would become available to pay the claims of the creditors of SREH, SLHT, SFH, SFR or the Transferee and payments on the Secured Notes would become subject to reduction or delay in the bankruptcy or insolvency proceeding. In that event, the holders of the Offered Notes would incur losses.

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Risk Factors Relating to Prior Investment Results, Projections, Forecasts and Estimates and the Co-Issuers

Relation to Prior Investment Results. The Collateral Advisor is a recently formed entity and has prior investment results. This is the fifth CDO investing primarily in RMBS and/or CMBS for which Strategos will be the collateral manager or collateral advisor. The prior investment results of the persons associated with the Collateral Advisor 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 the Ramp-Up Period), 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 Fiscal Agent, the Collateral Advisor, the Initial Purchaser, any Hedge Counterparty or any of their respective guarantors, 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 Fiscal Agent, the Collateral Advisor, the Initial Purchaser, any Hedge Counterparty or any of their respective guarantors, 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.

In addition, a prospective investor may have received a prospective investor presentation or other similar materials from the Initial Purchaser. Such a presentation may have contained a summary of certain proposed terms of a hypothetical offering of securities as contemplated at the time of preparation of such presentation in connection with preliminary discussions with prospective investors in the Securities. However, as indicated therein, no such presentation was an offering of securities for sale, and any offering is being made only pursuant to this Offering Circular. Given the foregoing and the fact that information contained in any

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such presentation was preliminary in nature and has been superseded and may no longer be accurate, neither any such presentation nor any information contained therein may be relied upon in connection with a prospective investment in the Securities. In addition, the Initial Purchaser or the Issuer may make available to prospective investors certain information concerning the economic benefits and risks resulting from ownership of the Securities derived from modeling the cash flows expected to be received by, and the expected obligations of, the Issuer under various hypothetical assumptions provided to the Initial Purchaser or potential investors. Any such information may constitute projections that depend on the assumptions supplied and are otherwise limited in the manner indicated above.

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 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 Secured Notes (the "Secured Noteholders"), each Hedge Counterparty, the Collateral Advisor and other Secured Parties. 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 Deed of Covenant, the Fiscal Agency Agreement, the Notes, the Purchase Agreement, the Account Control Agreement, the Preference Share Paying Agency Agreement, the Collateral Advisory Agreement, the Hedge Agreements, the Collateral Administration Agreement and the Administration Agreement, (iv) the pledge of the Collateral as security for its obligations in respect of (*inter alia*) the Secured Notes, (v) the pledge of the Class D Collateral as security for its obligations in respect of the Class D Notes, (vi) the pledge of the Class E Collateral as security for its obligations in respect of the Class E Notes and (vii) certain activities conducted in connection with the payment of amounts in respect of the 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.

Risk Factors Relating to Interest Rate Risks and Hedge Agreements

Interest Rate Risk. The Floating Rate 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

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mismatch between the floating rate at which interest accrues on the Floating Rate 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 one-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 Initial Interest Rate Swap which will be in effect on the Closing Date terminates in August 2017, which is prior to the Stated Maturity of the Notes, and the notional amount of such Hedge Agreement will be reduced periodically in accordance with a schedule attached to such Hedge Agreement. Moreover, the benefits of this or any other Hedge Agreement will 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 Secured Notes—The Hedge Agreements."

Moreover, the scheduled amortization of the notional amount of the Initial Interest Rate Swap is based on the Issuer's estimation of the future rate of amortization of the Fixed Rate Securities in the Issuer's portfolio (that are not Deemed Floating Rate Securities); however, if such Fixed Rate Securities amortize more quickly than the Issuer anticipated on the Closing Date (or any such securities are sold by the Issuer), the Issuer may be over-hedged and may be required to make termination payments to the Initial Hedge Counterparty in order to reduce the notional amount of the Initial Interest Rate Swap. Alternatively, if such Fixed Rate Securities amortize more slowly than the Issuer anticipated (or if the Issuer purchases more Fixed Rate Securities), the Issuer may be under-hedged and have increased exposure to an increase in LIBOR.

The Collateral Advisor (on behalf of the Issuer) may request that a Hedge Counterparty agree to a reduction in the notional amount of any Hedge Agreement if the conditions specified in the Indenture have been satisfied. 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 Secured Notes—The Hedge Agreements."

Initial Hedge Counterparty. See "Security for the Secured Notes—The Initial Hedge Counterparty" for information about the Initial Hedge Counterparty.

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

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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.

Up Front Payment by the Issuer Under the Initial Interest Rate Swap. On the Closing Date, the Issuer will enter into Deemed Floating Rate Hedge Agreements with the Initial Hedge Counterparty pursuant to which, among other things, the Issuer will pay to the Initial Hedge Counterparty an Issuer Up Front Payment of approximately U.S.$949,000, in the aggregate, on the Closing Date (which will be netted against the Up Front Payment). As a result of the Issuer Up Front Payment, the amounts payable by the Issuer under the Initial Hedge Agreement on each Distribution Date would be less than such payments would have been if such Issuer Up Front Payment had not been made. Furthermore, in the event of an early termination of any Deemed Floating Rate Hedge Agreement, the Initial Hedge Counterparty would be more likely to be required to make a termination payment to the Issuer (and the amount of such termination payment is likely to be greater) as a result of such Issuer Up Front Payment. Therefore, investors in the Notes and Preference Shares will be subject to the credit risk of the Initial Hedge Counterparty both with respect to its ability to make scheduled payments under the initial Deemed Floating Rate Agreements and its ability to make any such termination payments.

Up Front Payment by the Initial Hedge Counterparty Under the Initial Interest Rate Swap. On the Closing Date, the Issuer will enter into the Initial Interest Rate Swap with the Initial Hedge Counterparty pursuant to which, among other things, the Initial Hedge Counterparty will pay to the Issuer an Up Front Payment of approximately U.S.$3,900,000 on the Closing Date. As a result of such Up Front Payment, the amounts payable by the Issuer under the Initial Hedge Agreement on each Distribution Date would be more than they would have been if such Up Front Payment had not been made, because such payments would include the repayment by the Issuer of such Up Front Payment together with interest thereon. As a result of the amounts payable under the Initial Hedge Agreement by the Issuer on each Distribution Date, the funds available to pay interest 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 Initial Hedge Agreement, the Issuer may be required to make a termination payment to the Initial Hedge Counterparty, and such termination payment would be larger than if such an 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 such an Up Front Payment had not been made. The Issuer's obligations to the Initial Hedge Counterparty in respect of payments under the Initial Hedge Agreement (including repayment of any such 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 and principal on the Notes.

Termination of Hedge Agreements Upon Redemption. 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 Securities.

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Risk Factors Relating to Tax

Taxes on the Issuer. It is anticipated that, as of the Closing Date, the Preference Shares and the Subordinate Notes will be owned by SLHT and the Ordinary Shares will be owned by SREH, a wholly owned subsidiary of SLHT. SLHT is a wholly owned indirect subsidiary of SFR, an entity organized under the laws of Maryland as a real estate investment trust. The Issuer expects to be treated as either a Qualified REIT Subsidiary or a foreign corporation and does not expect to be subject to U.S. Federal income tax on an entity level basis. Neither the Issuer nor the Initial Purchaser, however, has made an independent investigation of SFR's qualification as an entity that has made an election to be treated, for U.S. Federal income tax purposes as a real estate investment trust under Section 856 of the Internal Revenue Code of 1986 ("REIT") for U.S. Federal income tax purposes and therefore, no representation is being made by either the Issuer or the Initial Purchaser in respect of the REIT qualification of SFR or the Issuer's status as a Qualified REIT Subsidiary.

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 U.S. Federal income tax purposes if the Issuer is not a Qualified REIT Subsidiary for U.S. Federal income tax purposes, and accordingly, the Issuer will not be subject to U.S. 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 Advisor's compliance with the Indenture, the Collateral Advisory Agreement, the Deed of Covenant, the Fiscal Agency Agreement and the Preference Share Paying Agency Agreement. Prospective investors should be aware that an opinion of counsel is not binding on the U.S. Internal Revenue Service (the "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. See "Income Tax Considerations."

The Issuer expects that payments received on the Collateral Debt Securities, Eligible Investments and the Hedge Agreements 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 be or 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 may be subject to withholding taxes imposed by the United States or other countries. The imposition of unanticipated withholding taxes or tax on the Issuer's net income could materially impair the Issuer's ability to pay principal of and interest on the Notes and make distributions on the Preference Shares. See "Income Tax Considerations."

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,

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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 U.S. and Non-U.S. Holders of the Preference Shares and Subordinate Notes. It is anticipated that, as of the Closing Date, the Preference Shares and the Subordinate Notes will be owned by SLHT and the Ordinary Shares will be owned by SREH. Although they are not required to do so, it is expected that SREH, SLHT or Affiliates of the Collateral Advisor and/or SFR will hold the Ordinary Shares, the Preference Shares and the Subordinate Notes while the Offered Notes are outstanding. Therefore, the tax implications of an investment in the Preference Shares and the Subordinate Notes are not discussed herein.

Certain Matters With Respect to German Investors. With effect as of January 1, 2004, the German Investment Tax Act (*Investmentsteuergesetz* or "InvStG" or "German Investment Tax Act") has come into force and replaced the German Foreign Investment Act. Adverse tax consequences will arise for investors subject to tax in Germany, if the InvStG is applied to the Securities. However, pursuant to a Circular released by the German Federal Ministry of Finance on the InvStG, dated June 2, 2005, the InvStG does not apply to CDO vehicles that allow a maximum of 20% of the assets of the issuer to be traded annually on a discretionary basis, in addition to the mere replacement of debt instruments for the purpose of maintaining the volume, the maturity and the risk structure of the CDO. If these conditions for non-application of the InvStG are satisfied the Securities are not subject to the InvStG.

None of the Issuer, the Placement Agent or the Initial Purchaser makes any representation, warranty or other undertaking whatsoever that the Securities are not qualified as unit certificates in a foreign investment fund pursuant to Section 1(1) no. 2 of the InvStG. The Issuer will not comply with any calculation and information requirements set forth in Section 5 of the InvStG. Prospective German investors in the Securities are urged to seek independent tax advice and to consult their professional advisors as to the legal and tax consequences that may arise from the application of the InvStG to the Securities, and none of the Issuer, the Placement Agent or the Initial Purchaser accepts any responsibility in respect of the tax treatment of the Securities under German law.

Risk Factors Relating to ERISA and Certain Regulations

ERISA Considerations. The Issuer intends to restrict ownership of the Subordinate Notes and 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 U.S. Internal Revenue Code of 1986, as amended (the "Code") as such term is defined in the Plan Asset Regulation issued by the United States Department of Labor. The Issuer intends to restrict the acquisition of Preference Shares by "Benefit Plan Investors" (which is defined in the Plan Asset Regulation to include all employee benefit plans, whether or not the plans are subject to Title I of ERISA, plans within the meaning of Section 4975(e)(1) of the Code, entities whose underlying assets are deemed to include plan assets, and including, for this purpose, the general account of an insurance company any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA and a wholly owned subsidiary of such general account) to less than 25% of the Preference Shares (determined after disregarding the Preference Shares held by Controlling Persons). However, there can be no

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assurance that ownership of Preference Shares by Benefit Plan Investors will always remain below the 25% threshold established under the Plan Asset Regulation.

Each Original Purchaser and each transferee of a Subordinate Note is required to represent, warrant and agree that it is not and will not be a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA (and a wholly owned subsidiary of such a general account). No Subordinate Note may be transferred to a transferee acquiring a Subordinate Note unless the transferee executes and delivers to the Issuer and the Fiscal Agent a transfer certificate in the form attached as an exhibit to the Fiscal Agency Agreement to the effect that such purchaser is not a Benefit Plan Investor. There can be no assurance, however, that Benefit Plan Investors will not in fact acquire Subordinate Notes. In addition, 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.

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 Note (other than a Subordinate Note) is required to certify (or, in certain circumstances, will be deemed to represent and warrant) either that (a) it is not (and, for so long as it holds any such Note or any interest therein, will not be), and is not acting on behalf of (and for so long as it holds any such Note or any 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(e)(1) of the Code that is subject to the prohibited transaction provisions of Section 4975 of the Code, 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 or the prohibited transaction provisions of Section 4975 of the Code, or a governmental or church plan subject to any Similar Law, or (b) its acquisition and holding of such Note (other than a Subordinate 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 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 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). The Preference Share Paying Agent will not recognize any such purchase or transfer of a Preference Share by or to a Benefit Plan Investor or a Controlling

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Person if, after giving effect to such purchase or transfer, 25% or more of the Preference Shares (determined after disregarding the Preference Shares held by Controlling Persons) would be held by Benefit Plan Investors.

Each Original Purchaser of Preference Shares will be required to complete a subscription agreement (each, a "Subscription Agreement") delivered to the Issuer (and each transferee of Preference Shares will be required to covenant in a transfer certificate or representation letter) pursuant to which such purchaser or transferee will make certain representations regarding their eligibility to own Preference Shares.

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.

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 from the registration requirements contained therein. Counsel for the Co-Issuers will opine, in connection with the sale and placement of the Notes and Preference Shares by the Initial Purchaser and the Placement Agent, 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 or placed by the Placement Agent 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 purchaser owns and invests on a discretionary basis at least U.S.$25,000,000 in securities of issuers that are not affiliated persons of the dealer; (iii) the purchaser is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or

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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.

Money Laundering Prevention. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as amended (the "USA PATRIOT Act"), requires financial institutions to establish and maintain anti-money laundering programs. Pursuant to this statute, on September 18, 2002, the Treasury Department published proposed regulations that will, if enacted, require all "unregistered investment companies" to establish and maintain an anti-money laundering program. The proposed regulations would require "unregistered investment companies" to: (a) establish and implement policies, procedures and internal controls reasonably designed to prevent the investment company from being used for money laundering or the financing of terrorist activities and to achieve compliance with applicable anti-money laundering regulations; (b) periodically "test" the required compliance program; (c) designate and train all responsible personnel; (d) designate an anti-money laundering compliance officer; and (e) file a written notice with the Treasury Department within 90 days of the effective date of the regulations that identifies certain information regarding the subject company, including the dollar amount of assets under company management and the number of interest holders in the subject company. As the proposed rule is currently drafted, an "unregistered investment company" includes any issuer that (i) would be an investment company but for the exclusion from registration provided for by Section 3(c)(1) or 3(c)(7) of the Investment Company Act, (ii) permits an owner to redeem his or her ownership interest within two years of the purchase of that interest, (iii) has total assets over $1,000,000 and (iv) is organized in the United States, is "organized, operated, or sponsored" by a U.S. person or sells ownership interests to a U.S. person. The Treasury Department is currently studying the types of investment vehicles that will be required to adopt anti-money laundering procedures, and it is unclear at this time whether such procedures will apply to pooled investment vehicles such as the Issuer. The Issuer will continue to monitor the developments with respect to the USA PATRIOT Act and, upon further clarification by the Treasury Department, will take all steps required to comply with the USA PATRIOT Act and regulations thereunder to the extent applicable to the Issuer. It is possible that other legislation or regulation could be promulgated which will require the Collateral Advisor or other service providers to the Co-Issuers to share information with governmental authorities with respect to investors in the Securities in connection with the establishment of anti-money laundering procedures or require the Issuer to implement additional restrictions on the transfer of the Securities. The Issuer reserves the right to request such information as is necessary to verify the identity of investors in the Securities and the source of the payment of subscription monies, or as is necessary to comply with any customer identification programs required by Financial Crimes Enforcement Network and/or the Securities and Exchange Commission. In the event of delay or failure by the applicant to produce any information required for verification purposes, an application for or transfer of 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.

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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 (as amended) of the Cayman Islands.

Certain Legal Investment Considerations. None of the Issuer, the Co-Issuer, the Collateral Advisor, the Placement Agent or the Initial Purchaser makes any representation as to the proper characterization of the Securities for legal investment or other purposes, as to the ability of particular investors to purchase Securities for legal investment or other purposes or as to the ability of particular investors to purchase Securities under applicable investment restrictions. All institutions the activities of which are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their own legal advisors in determining whether and to what extent the Securities are subject to investment, capital or other restrictions. Without limiting the generality of the foregoing, none of the Issuer, the Co-Issuer, the Collateral Advisor, the Placement Agent and the Initial Purchaser makes any representation as to the characterization of the Securities as a U.S.-domestic or foreign (non-U.S.) investment under any state insurance code or related regulations, and they are not aware of any published precedent that addresses such characterization. Although they are not making any such representation, the Co-Issuers understand that the New York State Insurance Department, in response to a request for guidance, has been considering the characterization (as U.S.-domestic or foreign (non-U.S.)) of certain collateralized debt obligation securities co-issued by a non-U.S. issuer and a U.S. co-issuer. There can be no assurance as to the nature of any advice or other action that may result from such consideration. The uncertainties described above (and any unfavorable future determinations concerning legal investment or financial institution regulatory characteristics of the Securities) may affect the liquidity of the Securities.

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 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.

Risk Factor Relating to Listing

Listing. Application will be made to the Irish Stock Exchange for the Offered Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated

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market. 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 official list of the Irish Stock Exchange, the Issuer may at any time terminate the listing of such Notes if the Issuer (or the Collateral Advisor on behalf of 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).

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DESCRIPTION OF THE NOTES

The Secured Notes will be issued pursuant to the Indenture. The Subordinate Notes will be issued pursuant to the Deed of Covenant and administered under the Fiscal Agency Agreement. The following summary describes certain provisions of the Notes, the Indenture and the Fiscal Agency Agreement. 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 and the Fiscal Agency Agreement. After the Closing Date, copies of the Indenture or the Fiscal Agency Agreement and the Deed of Covenant may be obtained by prospective investors upon request to the Trustee or the Fiscal Agent (as applicable) at 181 West Madison Street, 32nd Floor, Chicago, Illinois 60602, Attention: CDO Trust Services Group-Kleros Real Estate CDO II, Ltd.

Status and Security

The Secured Notes will be limited recourse debt obligations of the Co-Issuers (or, in the case of the Subordinate Notes, of the Issuer). All of the Class A-1A Notes are entitled to receive payments *pari passu* among themselves, all of the Class A-1B 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 Class E 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 and payments of principal with Interest Proceeds in limited circumstances, the relative order of seniority of payment of principal of each Class of Notes on each Distribution Date is as follows: *first*, Class A-1A Notes, *second*, Class A-1B Notes, *third*, Class A-2 Notes, *fourth*, Class B Notes, *fifth*, Class C Notes, *sixth*, Class D Notes and *seventh*, Class E Notes, with each Class of Notes (other than the Class A-1A Notes) in such list being Subordinate to each other Class of Notes that precedes such Class of Notes in such list. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that 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 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 Secured Notes. The Subordinate Notes are not secured by the Collateral, except to the extent described under "—The Fiscal Agency Agreement."

Payments of principal of and interest on the Notes will be made solely from the proceeds of the Collateral, in accordance with the priorities described under "—Priority of Payments" herein. If the amounts received in respect of the Collateral (net of certain expenses) are insufficient to make payments on the Notes, no other assets will be available for payment of

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the deficiency and, following liquidation of all the Collateral, the obligations of the Co-Issuers to pay any such deficiency will be extinguished.

Interest

The Class A-1A Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR (determined as described herein) *plus* 0.22%. The Class A-1B Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR (determined as described herein) *plus* 0.22%. The Class A-2 Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR *plus* 0.40%. The Class B Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR *plus* 0.50%. The Class C Notes will bear interest at a floating rate *per annum* equal to one-month LIBOR plus 0.65%. The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* the lesser of (i) 3.00% and (ii) the Alternative Spread, if any. The Class E Notes will bear interest at a fixed rate *per annum* equal to 1.00%. Interest on the Floating Rate Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. LIBOR for the first Interest Period for all Floating Rate Notes will be an interpolated LIBOR for the period from the Closing Date to the first Distribution Date. Interest on the Fixed Rate Notes will be computed on the basis of a 360-day year of twelve 30-day months.

With respect to each Class of Notes, interest will accrue on the Aggregate Outstanding Amount of each Class of Notes (determined as of the first day of each Interest Period and after giving effect to any redemption or other payment of principal occurring on such day) (i) in the case of the initial Interest Period, the period from and including the Closing Date 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, until such Notes are paid in full.

Payments of interest on the Notes and distributions, if any, on the Preference Shares will be payable in U.S. dollars monthly in arrears on, with respect to each calendar month commencing in September 2006, the later of (x) the first day of such calendar month or (y) except with respect to the first Distribution Date, the fourth Business Day following the applicable Determination Date (each a "Distribution Date"); *provided* that (i) the final Distribution Date with respect to the Notes will be the Stated Maturity, (ii) if a Distribution Date would otherwise fall on a day that is not a Business Day, the relevant Distribution Date will be the first following day that is a Business Day and (iii) the Accelerated Maturity Date shall be a Distribution Date.

So long as any Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes or Class C Notes are outstanding, 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, the "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. Class D Deferred Interest Amount accrued to any Distribution Date shall bear interest equal to LIBOR *plus* the lesser of (i) 3.00% and (ii) the

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Alternative Spread *per annum*, if any, 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.

So long as any Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes, Class C Notes or Class D Notes are outstanding, any interest due on the Class E Notes which is not paid as a result of the operation of the Priority of Payments on any Distribution Date (any such interest, the "Class E Deferred Interest Amount") shall be deferred and added to the Aggregate Outstanding Amount of the Class E Notes, and shall not be considered "due and payable" until the Distribution Date on which funds are available to pay such Class E Deferred Interest Amount in accordance with the Priority of Payments. Class E Deferred Interest Amount accrued to any Distribution Date shall bear interest equal to 1.00% *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 E Deferred Interest Amount, the Aggregate Outstanding Amount of the Class E 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 in full.

LIBOR

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

(1) On each LIBOR Determination Date, "LIBOR" shall equal the offered rate, as determined by the Calculation Agent, for U.S. dollar deposits in Europe of the Designated Maturity 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.

(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 one month (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

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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 one month, 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 11:00 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.

Notwithstanding the foregoing, "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

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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 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 11:00 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.

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. (New York time) on the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will make available to the Co-Issuers, the Collateral Advisor, the Trustee, the Fiscal Agent, each Paying Agent (other than the Preference Share Paying Agent), the Depositary, each Hedge Counterparty, the Irish Paying Agent (so long as any Class of Floating Rate Notes is listed on the Irish Stock Exchange) and, if applicable, Euroclear and Clearstream, Luxembourg the applicable *per annum* rate (the "Note Interest Rate") for each Class of Floating Rate 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 principal amount of the Floating Rate Notes 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 Advisor 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 Floating Rate Notes with respect to such Interest Period, together with its reasons therefor.

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

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 Floating Rate Notes or the amount of interest payable in respect of any Class of Floating Rate 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.

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 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.

Principal

The Stated Maturity of the Notes is the Distribution Date in November 2046. Each Class of Notes is scheduled to mature at the Stated Maturity unless redeemed or repaid prior thereto. However, the Notes may be paid in full prior to their Stated Maturity. See "Risk Factors—Risk Factors Relating to the Terms of the Securities—Average Lives of the Notes and Prepayment Considerations" and "Maturity, Prepayment and Yield Considerations." Any payment of principal with respect to any Class of Notes (including any payment of principal made in connection with an Optional Redemption, Auction Call Redemption or Tax Redemption) will be made by the Trustee on a *pro rata* basis on each Distribution Date among the Notes of such Class according to the respective unpaid principal amounts thereof outstanding immediately prior to such payment. The Trustee will, so long as any Class of Notes is listed on the Irish Stock Exchange, notify the Irish Paying Agent not later than each Distribution Date of the amount of principal payments to be made on the Notes of each such Class, if any, on such Distribution Date, the amount of any Class D Deferred Interest Amount, the amount of any Class E Deferred Interest Amount, the aggregate outstanding principal amount of the Notes of each such Class and the percentage of the original aggregate outstanding principal amount of the Notes of such Class after giving effect to the principal payments, if any, on such Distribution Date.

During the Reinvestment Period, any Available Reinvestment Funds will be held for reinvestment and will not be distributed on any Distribution Date that is not a Redemption Date or an Accelerated Maturity Date, except to the extent that, after the application of all other

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Principal Proceeds, any amount remains to be paid pursuant to clauses (1), (2), (5) and (8) of the Principal Proceeds Waterfall, in which event the portion (or all) of the Available Reinvestment Funds required to pay such amount will be distributed as Principal Proceeds on such Distribution Date. In addition, if the Cash Release Conditions are satisfied, the Collateral Advisor (on behalf of the Issuer) shall direct the Issuer to distribute any Available Reinvestment Funds as Principal Proceeds in accordance with the Priority of Payments on any Distribution Date. As a result, the Issuer is not expected to make any principal payments on the Notes from Principal Proceeds during the Reinvestment Period unless (x) the Cash Release Conditions are satisfied or (y) the Collateral Advisor does not find sufficient reinvestment opportunities within the 60-day time period described under "Security for the Secured Notes—Reinvestment Period. However, once the amount of CDS Sale Proceeds which have been reinvested during any 12 month period (together with any CDS Sale Proceeds on deposit in the Principal Collection Account) equals the Sale Proceeds Reinvestment Limit, all other CDS Sale Proceeds during such 12 month period will be distributed as Principal Proceeds even if the Reinvestment Period has not ended.

Payments of principal may be made on the Notes only in the following circumstances (subject, in each case, to the Priority of Payments): (a) on each Distribution Date from Principal Proceeds (other than, during the Reinvestment Period, any Principal Proceeds that are Available Reinvestment Funds, except to the extent that, after the application of all other Principal Proceeds, any amount remains to be paid pursuant to clauses (1), (2), (5) and (8) of the Principal Proceeds Waterfall), in accordance with the Priority of Payments, (b) in connection with an Optional Redemption, Tax Redemption, Auction Call Redemption or Accelerated Maturity Date, (c) on any Distribution Date from Interest Proceeds and then Principal Proceeds, if needed, upon the failure of the Issuer to meet the Class A/B/C Overcollateralization Test as of the related Determination Date, (d) on any Distribution Date from Interest Proceeds, upon the failure of the Issuer to meet the Class D Overcollateralization Test as of the related Determination Date, to pay principal on the Class D Notes, (e) on each Distribution Date, to pay any Class D Deferred Interest Amount, (f) on each Distribution Date, to pay any Class E Deferred Interest Amount, (g) on any Distribution Date on or after the Distribution Date in August 2014 from any Interest Proceeds that would otherwise be released from the lien of the Indenture and paid to the Preference Share Paying Agent, to pay principal *pro rata* of the Class D Notes and the Class E Notes based upon their respective principal amounts until the Class D Notes and the Class E Notes have been paid in full and (h) on each Distribution Date, after a Rating Confirmation Failure (to the extent necessary to obtain a Rating Confirmation). Principal Proceeds that are Available Reinvestment Funds will be held for reinvestment in Substitute Collateral Debt Securities, as described in "Security for the Secured Notes—Reinvestment Period" and "—Disposition of Collateral Debt Securities" herein.

On any Distribution Date that occurs during a Sequential Pay Period, Principal Proceeds (other than Available Reinvestment Funds, as described above), will be applied in accordance with the Priority of Payments to pay principal of the Notes in direct order of seniority, with the principal of Class A-1A Notes being paid prior to the payment of principal of Class A-1B Notes, the principal of Class A-1B 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, the principal of Class C Notes being paid prior to the payment of

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the principal of Class D Notes and the principal of Class D Notes being paid prior to the payment of the principal of Class E Notes.

On any Distribution Date which occurs during a Pro Rata Pay Period, Principal Proceeds (other than Available Reinvestment Funds, as described above), will be applied in accordance with the Priority of Payments to pay (i) *first*, the principal amount of the Class A Notes, the Class B Notes and the Class C 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 Principal Proceeds) in an amount up to the Class A/B/C Pro Rata Principal Payment Cap, (ii) *second*, the principal amount of the Class D Notes in an amount up to the Class D Pro Rata Principal Payment Cap (after payment of the Interest Distribution Amount with respect to the Class D Notes to the extent not paid with Interest Proceeds) and (iii) *third*, the principal amount of the Class E Notes (after payment of the Interest Distribution Amount with respect to the Class E Notes to the extent not paid with Interest Proceeds), until paid in full.

A Sequential Pay Period will commence on the earliest to occur of (i) the first Determination Date on which an Event of Default has occurred and is continuing, (ii) the first Determination Date on which the Class A Sequential Pay Test is not satisfied and (iii) the first date on which the Aggregate Principal Balance of the Pledged Collateral Debt Securities has fallen below 50% of the Net Outstanding Portfolio Collateral Balance as of the Ramp-Up Completion Date. If the Sequential Pay Period commences for any reason, a Pro Rata Pay Period may not commence on any future Distribution Date.

If the Class A/B/C Overcollateralization Test is not satisfied on any Determination Date on or after the Ramp-Up Completion Date, Interest Proceeds remaining after payment of interest on the Secured Notes and, if necessary, Principal Proceeds that would otherwise be used to make payments on such Distribution Date in respect of interest on the Subordinate Notes, certain fees and expenses and distributions on the Preference Shares (and, if necessary to cure such breach, Principal Proceeds), will be applied on the related Distribution Date to cure the breach of the Class A/B/C Overcollateralization Test by paying principal of the Class A-1A Notes, the Class A-1B Notes, the Class A-2 Notes, the Class B Notes and the Class C Notes, in direct order of seniority, until the Class A/B/C Overcollateralization Test has been satisfied.

If the Class D Overcollateralization Test is not satisfied on any Determination Date on or after the Ramp-Up Completion Date, Interest Proceeds remaining after payment of interest on the Class D Notes that would otherwise be used to make payments on such Distribution Date in respect of interest on the Class E Notes, certain fees and expenses and distributions on the Preference Shares will be applied on the related Distribution Date to cure the breach of the Class D Overcollateralization Test by paying principal of the Class D Notes, until the Class D Overcollateralization Test has been satisfied.

See "Description of the Notes—Priority of Payments—Interest Proceeds" and "—Principal Proceeds."

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Mandatory Redemption

The Class A-1A Notes, the Class A-1B Notes, the Class A-2 Notes, the Class B Notes and the Class C Notes will, on any Distribution Date, be subject to mandatory redemption in the event that the Class A/B/C Overcollateralization Test is not satisfied on the related Determination Date. Any such redemption will be effected from Interest Proceeds (and then, in the case of a breach of the Class A/B/C Overcollateralization Test, Principal Proceeds, if needed) to the extent necessary to cause the Class A/B/C Overcollateralization Test, to be satisfied. Any such redemption will be effected as described below under "—Priority of Payments." The Class A/B/C Overcollateralization Test will not apply during the Ramp-Up Period.

The Class D Notes will, on any Distribution Date, be subject to mandatory redemption in the event that the Class D Overcollateralization Test is not satisfied on the related Determination Date. Any such redemption will be effected from Interest Proceeds to the extent necessary to cause the Class D Overcollateralization Test, to be satisfied. Any such redemption will be effected as described below under "—Priority of Payments." The Class D Overcollateralization Test will not apply during the Ramp-Up Period.

If the Co-Issuers fail to receive a 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 the Notes in direct order of Seniority, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation. See "Security for the Secured Notes—Ramp-Up Period."

If on any Distribution Date on or after the August 2014 Distribution Date the Class D Notes or the Class E Notes remain outstanding, any Interest Proceeds that would otherwise be released from the lien of the Indenture and paid to the Preference Share Paying Agent will be applied to pay principal *pro rata* of the Class D Notes and the Class E Notes based upon their respective principal amounts until the Class D Notes and the Class E Notes have been paid in full. See "Description of the Notes—Priority of Payments—Interest Proceeds."

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 August 2014, 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 August 2014 and (2) if the Notes are not redeemed in full on the prior Distribution Date, ten Business Days prior to each third

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Distribution Date thereafter until the Notes have been redeemed in full (each such date, an "Auction Date"). Any of the Preference Shareholders, the Collateral Advisor, 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) with respect to Collateral Debt Securities:

(A) the Trustee has received bids for such Collateral Debt Securities from at least two qualified bidders identified by the Trustee in consultation with the Collateral Advisor (including the winning qualified bidder) for (x) the purchase of all of such Collateral Debt Securities as a single pool or (y) the purchase of subpools that in the aggregate constitute all of such Collateral Debt Securities; and

(B) the bidder(s) who offered the highest auction price for such 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 clauses (i) and (ii)(A) above and clause (iii) below 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 such 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 before the sixth Business Day prior to the relevant Distribution Date;

(iii) the Trustee (with the assistance of the Collateral Advisor) has determined that (I) the aggregate purchase price (paid in cash) that would be received pursuant to the highest bids obtained with respect to the Collateral Debt Securities pursuant to clause (ii) above *plus* (II) the balance of all Eligible Investments and cash in the Accounts (other than in any Hedge Counterparty Collateral Account) would be at least equal to the Total Senior Redemption Amount.

If the conditions set forth in clauses (i), (ii) and (iii) above have been satisfied, the Trustee shall sell and transfer the Pledged 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), (A) in accordance with and upon completion of the Auction Procedures and (B) on or before the sixth Business Day prior to the relevant Distribution Date. The Trustee shall deposit the net proceeds from the sale of, and the net termination or assignment payments received in respect of, the Collateral Debt Securities in the Collection Accounts (and pay net termination payments, if any, due to counterparties) and (x) redeem the Notes in whole but not in part at the applicable Redemption Price (exclusive of installments of principal and interest due on or prior to such date, *provided* payment of which shall have been made or duly provided for, to the holders of the Notes as provided in the Indenture), (y) pay the remaining

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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 Class D/E/Preference Share Redemption Date Amount, if any), in each case on the Distribution Date immediately following the relevant Auction Date (such redemption, the "Auction Call Redemption"). Notwithstanding the foregoing, but subject to the satisfaction of the conditions described above, the Collateral Advisor, although it may not have been the highest bidder, will have the option to purchase the Collateral Debt Securities (or any subpool) for a purchase price equal to the highest bid therefor.

If (x) any of the foregoing conditions is not met with respect to any Auction or (y) if the highest bidder (or the highest bidder for any subpool, as the case may be) fails to pay the purchase price for any Collateral Debt Security, in each case on or before the sixth Business Day prior to the related Distribution Date (and, in the case of a failure by the highest bidder to pay for a subpool, the Available Redemption Funds are less than the Total Senior Redemption Amount), (a) the Auction Call Redemption shall not occur on the Distribution Date following the relevant Auction Date, (b) the Trustee shall give written notice of the withdrawal of the redemption notice to the Issuer, the Collateral Advisor and the holders of the Notes on or prior to the fifth Business Day preceding the scheduled Redemption Date, (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 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 written 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 August 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 written direction of the holders of at least 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 written 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.

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Unless a Majority-in-Interest of Preference Shareholders have also requested the Issuer to redeem the Preference Shares on such Distribution Date (see "Description of the Preference Shares—Optional Redemption of the Preference Shares"), the amount of Collateral sold in connection with such Optional Redemption or Tax Redemption shall not exceed by any material amount 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 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 payable to holders of such Affected Class (and the Total Senior Redemption Amount will be reduced accordingly).

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 ten 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 Secured Note Registrar under the Indenture or the Subordinate Note Registrar under the Fiscal Agency Agreement (as applicable), 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, direct the Irish Paying Agent to 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 ten Business Days prior to the Redemption Date. Notes must be surrendered at the offices designated by any Paying Agent under the Indenture or the Fiscal Agency Agreement 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, the Trustee or the Fiscal Agent, as applicable.

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 or has obtained firm bids from (i) one or more entities 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 rating) from each Rating Agency (a) at least equal to the rating of the most Senior Class of Notes then outstanding or (b) 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) and at least "A-1" by Standard & Poor's or (ii) one or more purchasers which otherwise satisfies the Rating Condition or (iii) one or more purchasers (a "Cash Purchaser") which pay the full purchase price in cash on or prior to such sixth Business Day, 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

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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, including termination payments other than Deferred Termination Payments).

Any such notice of redemption with respect to an Optional Redemption or a Tax Redemption must be withdrawn by the Issuer on or prior to the fifth Business Day prior to the scheduled Redemption Date by written notice to the Trustee, each Hedge Counterparty, the Fiscal Agent, the Preference Share Paying Agent, the Rating Agencies and the holders of the Notes if on or prior to the sixth Business Day preceding the scheduled Redemption 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 and (2) the sale prices of such Collateral Debt Securities are not (in the sole judgment of the Collateral Advisor) below the fair market value of such Collateral Debt Securities, (ii) the independent accountants appointed by the Issuer have not confirmed in writing the calculations made in such certification or (iii) in the case of any Cash Purchaser, such purchaser has not paid the purchase price in full to the Issuer on or prior to the sixth Business Day preceding the scheduled Redemption Date. Any notice of redemption with respect to an Auction Call Redemption must be withdrawn under the circumstances described under "—Auction Call Redemption." Notice of any such withdrawal shall be given by the Trustee to each holder of Secured Notes at such holder's address in the Secured Note Register maintained by the Secured Note Registrar under the Indenture or in the Subordinate Note Register maintained by the Subordinate Note Registrar under the Fiscal Agency Agreement (as applicable) and to the Fiscal Agent, each Hedge Counterparty and each Rating Agency by overnight courier guaranteeing next day delivery, sent not later than the fifth 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); *provided* that, in the case of a Tax Redemption where the Holders of 100% of the Aggregate Outstanding Amount of an Affected Class of Notes elect to receive less than 100% of the portion of the Total Senior Redemption Amount that would otherwise be payable to the Holders of such Affected Class, the Redemption Price as to such Affected Class is the amount agreed upon by such Affected Class (and the Total Senior Redemption Amount will be reduced accordingly).

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.

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Payments

Payments in respect of principal of, and interest on, any Note will be made to the person in whose name such Note is registered 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 or the Fiscal Agency Agreement (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 on or before the Record Date, by a Dollar check drawn on a bank in the United States mailed to the address of the holder of such Note as it appears on the Secured Note Register or the Subordinate Note Register (as applicable) 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 or the Fiscal Agency Agreement (as applicable) 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 and the Fiscal Agency Agreement, 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, the Fiscal Agent or any Paying Agent in trust for the payment of principal of or interest on any Note 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, the Fiscal Agent or such Paying Agent with respect to such trust money shall thereupon cease. The Trustee, the Fiscal Agent 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 and the Fiscal Agent are each authorized and directed under the Indenture and the Fiscal Agency Agreement 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 or the Fiscal Agent 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

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the Trustee and remitted to the appropriate taxing authority. The Trustee or the Fiscal Agent, as applicable, will determine in its sole discretion whether to withhold tax with respect to a distribution in accordance with the Indenture or the Fiscal Agency Agreement. If any Noteholder wishes to apply for a refund of any such withholding tax, the Trustee or the Fiscal Agent, as applicable, will reasonably cooperate with such Noteholder in making such claim so long as such Noteholder agrees to reimburse the Trustee or the Fiscal Agent, as applicable, for any out-of-pocket expenses incurred. Failure of a holder of a Note to provide the Trustee, any Paying Agent, the Fiscal Agent and the Issuer with appropriate tax certificates will result in amounts being withheld from the payment to such holders. Neither the Trustee nor the Fiscal Agent has any 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 and the Fiscal Agency Agreement. 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"). On any date during such Due Period upon which the Issuer receives an interest payment in cash in respect of a Semi-Annual Interest Paying Security, the Trustee will deposit five-sixths of such interest payment on such Semi-Annual Interest Paying Security into the Semi-Annual Interest Reserve Account and on any date during such Due Period upon which the Issuer receives an interest payment in cash in respect of a Quarterly Interest Paying Security, the Trustee will deposit two-thirds of such interest payment on such Quarterly Interest Paying Security into the Quarterly Interest Reserve Account. Commencing on the second Distribution Date after the Due Period in which an interest payment on a Semi-Annual Interest Paying Security was received, at least one Business Day prior to such Distribution Date and each of the four Distribution Dates thereafter, the Trustee shall transfer from the Semi-Annual Interest Reserve Account to the Payment Account, for application as Interest Proceeds on such Distribution Date, 20% of the original amount of such deposit into the Semi-Annual Interest Reserve Account (so that the entire amount of such deposit into the Semi-Annual Interest Reserve Account will have been transferred to the Payment Account by the sixth Distribution Date following the Due Period in which such deposit was made). Commencing on the second Distribution Date after the Due Period in which an interest payment on a Quarterly Interest Paying Security was received, at least one Business Day prior to such Distribution Date and the next Distribution Date thereafter, the Trustee shall transfer from the Quarterly Interest Reserve Account to the Payment Account, for application as Interest Proceeds on such Distribution Date, 50% of the original amount of such deposit into the Quarterly Interest Reserve Account (so that the entire amount of such deposit into the Quarterly Interest Reserve Account will have been transferred to the Payment Account by the third Distribution Date following the Due Period in which such deposit was made). On any Distribution Date on which the Issuer would otherwise have insufficient Interest Proceeds to pay the Interest Distribution Amount on all of the Notes in accordance with the Priority of Payments, the Collateral Advisor, in its sole discretion, may direct the Trustee to transfer from the Semi-Annual Interest Reserve Account

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and/or the Quarterly Interest Reserve Account to the Payment Account, for application as Interest Proceeds on such Distribution Date, an amount up to an amount sufficient (together with other Interest Proceeds available for such purpose) to pay the Interest Distribution Amount on all of the Notes in accordance with the Priority of Payments from Interest Proceeds.

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 to the Trustee of accrued and unpaid Trustee Expenses (other than amounts payable pursuant to indemnities) under the Indenture and the Fiscal Agency Agreement (and, if an Event of Default has occurred and is continuing under the Indenture or the Fiscal Agency Agreement, 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 Trustee of Trustee Expenses constituting indemnities; (f) *sixth*, to the payment of accrued and unpaid expenses of the Collateral Advisor; (g) *seventh*, to the payment of accrued and unpaid Other Administrative Expenses then due and payable; *provided* that all payments made pursuant to subclauses (b) through (g) of this clause (2) do not exceed during the applicable Expense Year (including such Distribution Date), U.S.$200,000 in the aggregate; and (h) *eighth*, if the balance of all Eligible Investments and cash in the Expense Account on the related Determination Date is less than U.S.$75,000, for deposit to the Expense Account of an amount equal to the lesser of (x) the amount by which U.S.$200,000 exceeds the aggregate amount of payments made under subclauses (b) through (g) of this clause (2) during the applicable Expense Year (including 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.$75,000; *provided*, to the extent that Interest Proceeds will be insufficient to pay the Interest Distribution Amount with respect to the Class A Notes, Class B Notes and Class C Notes on a Distribution Date in accordance with the Priority of Payments, (x) the amount distributed on such Distribution Date pursuant to subclauses (b) through (g) of this clause (2) may not exceed U.S.$16,667 and (y) the Trustee shall not deposit funds in the Expense Account pursuant to this clause (2) on such Distribution Date;

(3) to the payment to the Collateral Advisor of accrued and unpaid Advisory Fee, to the extent that the Collateral Advisor is neither Strategos nor an Affiliate thereof;

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

(5) to the payment of the Interest Distribution Amount with respect to the Class A-1A Notes;

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(6) to the payment of the Interest Distribution Amount with respect to the Class A-1B Notes;

(7) to the payment of the Interest Distribution Amount with respect to the Class A-2 Notes;

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

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

(10) (a) if the Class A/B/C Overcollateralization Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note or Class C Note remains outstanding, to the payment of principal on, *first*, the Class A-1A Notes, *second*, the Class A-1B Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes and, *fifth*, the Class C Notes, until the Class A/B/C Overcollateralization Test is satisfied; and (b) 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-1A Notes, *second*, the Class A-1B Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes and, *fifth*, the Class C Notes, to the extent specified by each relevant Rating Agency in order to obtain a Rating Confirmation;

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

(12) (a) if the Class D Overcollateralization Test is not satisfied on the related Determination Date and if any Class D Note remains outstanding, to the payment of principal on the Class D Notes until the Class D Overcollateralization Test is satisfied; and (b) 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 the Class D Notes, to the extent specified by each relevant Rating Agency in order to obtain a Rating Confirmation;

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

(14) to the payment of the Interest Distribution Amount with respect to the Class E Notes;

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

(16) to the payment of, *first*, to the Trustee of accrued and unpaid Trustee Expenses and, *second*, Rating Agency Expenses, *third*, accrued and unpaid expenses of the Collateral Advisor and *fourth*, accrued and unpaid Other Administrative Expenses, in each case in the priority of and to the extent not paid pursuant to clause (2) above (whether as the result of the limitations on amounts set forth therein or otherwise) and *fifth*, to the Expense Account, 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.$75,000;

(17) if such Distribution Date occurs on or after the Distribution Date in August 2014 and is not a Redemption Date or an Accelerated Maturity Date, to the payment of principal pro

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rata of the Class D Notes and the Class E Notes based on their respective principal amounts (after taking into account all payments of principal pursuant to clauses (10) and (12), (13) and (15) above), until the Class D Notes and the Class E Notes have been paid in full; and

(18) 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 (other than Principal Proceeds that are Available Reinvestment Funds, which will be held for reinvestment and will not be distributed on any Distribution Date that is not a Redemption Date or an Accelerated Maturity Date, except to the extent that, after the application of other Principal Proceeds, any amount remains to be paid pursuant to clauses (1), (2), (5) and (8) below, in which event the portion (or all) of the Available Reinvestment Funds required to pay such amount will be distributed as Principal Proceeds on such Distribution Date) 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 (9) of the Interest Proceeds Waterfall in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(2) (a) *first*, after giving effect to any application of Uninvested Proceeds and Interest Proceeds, if the Class A/B/C Overcollateralization Test is not satisfied on the related Determination Date and if any Class A Notes, Class B Notes or Class C Notes remain outstanding, to the payment of principal of, *first*, the Class A-1A Notes, *second*, the Class A-1B Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes, and, *fifth*, the Class C Notes, until the Class A/B/C Overcollateralization Test is satisfied or each such Class is paid in full; and (b) *second*, commencing on the first Distribution Date following the occurrence of a Rating Confirmation Failure, to the payment of principal of, *first*, the Class A-1A Notes, *second*, the Class A-1B Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes, and, *fifth*, the Class C Notes, to the extent specified by any relevant Rating Agency in order to obtain a Rating Confirmation;

(3) if such Distribution Date occurs during a Sequential Pay Period, to the payment of principal of, *first*, the Class A-1A Notes, until the Class A-1A Notes have been paid in full, *second*, the Class A-1B Notes until the Class A-1B Notes have been paid in full, *third*, the Class A-2 Notes until the Class A-2 Notes have been paid in full, *fourth*, the Class B Notes until the Class B Notes have been paid in full, and, *fifth*, the Class C Notes until the Class C Notes have been paid in full;

(4) for each Distribution Date which occurs during a Pro Rata Pay Period, to the payment of principal of the Class A-1A Notes, the Class A-1B Notes, the Class A-2 Notes, the Class B Notes and the Class C 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 this clause (4) of the

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Principal Proceeds Waterfall) in an aggregate amount up to the Class A/B/C Pro Rata Principal Payment Cap for such Distribution Date;

(5) to the payment of the amount referred to in clause (11) of the Interest Proceeds Waterfall, but only to the extent not paid in full thereunder;

(6) if such Distribution Date occurs during a Sequential Pay Period, to the payment of principal of the Class D Notes (including any Class D Deferred Interest Amount), until the Class D Notes have been paid in full;

(7) for each Distribution Date which occurs during a Pro Rata Pay Period, to the payment of principal of the Class D Notes (including any Class D Deferred Interest Amount, after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds, prior to this clause (7) of the Principal Proceeds Waterfall) in an aggregate amount up to the Class D Pro Rata Principal Payment Cap for such Distribution Date;

(8) to the payment of the amount referred to in clause (14) of the Interest Proceeds Waterfall, but only to the extent not paid in full thereunder;

(9) to the payment of principal of the Class E Notes (including any Class E Deferred Interest Amount) until the Class E Notes have been paid in full;

(10) to the payment of amounts referred to in clause (16) of the Interest Proceeds Waterfall in the same order of priority specified therein, but only to the extent not paid thereunder; and

(11) 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.

If the Class A/B/C Overcollateralization Test is not satisfied on the Determination Date related to the first Distribution Date, Uninvested Proceeds (that are not required to complete purchases of Collateral Debt Securities) will be applied to the payment of principal of, *first*, the Class A-1A Notes, *second*, the Class A-1B Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes and, *fifth*, the Class C Notes until the Class A/B/C Overcollateralization Test is satisfied, prior to the application of Interest Proceeds or Principal Proceeds for such purpose. On the first Distribution Date following a Rating Confirmation Failure, Uninvested Proceeds (that are not required to complete purchases of Collateral Debt Securities) will be applied to the payment of principal of, *first*, the Class A-1A Notes, *second*, the Class A-1B Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes, *fifth*, the Class C Notes and *sixth*, the Class D Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation.

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.

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

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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 is 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 that funds are available therefor.

Any amounts to be paid to the Subordinate Notes pursuant to the Interest Proceeds Waterfall or the Principal Proceeds Waterfall will be released from the lien of the Indenture and paid to the Fiscal Agent for distribution pursuant to the Fiscal Agency Agreement. Notwithstanding the foregoing, on the Redemption Date, the Stated Maturity, the Accelerated Maturity Date or any Post-Acceleration Distribution Date, in the event that after the application of Principal Proceeds and the application of Interest Proceeds under clauses (1) through (10) of the Interest Proceeds Waterfall the principal amount of the Secured Notes has not been paid in full, any amount distributable under clauses (11) through (17) of the Interest Proceeds Waterfall shall be applied first to pay such principal (in order of seniority) of the Secured Notes prior to making any distribution to the Fiscal Agent or to pay any other amounts set forth in such clauses.

Any amounts to be paid to the Preference Share Paying Agent pursuant to clause (18) of the Interest Proceeds Waterfall or clause (11) of the Principal Proceeds Waterfall will be released from the lien of the Indenture. Notwithstanding the foregoing, on the Redemption Date, the Stated Maturity, the Accelerated Maturity Date or any Post-Acceleration Distribution Date, in the event that after the application of Principal Proceeds and the application of Interest Proceeds under clauses (1) through (17) of the Interest Proceeds Waterfall the principal amount of the Notes has not been paid in full, any amount distributable under clause (18) 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 on or prior to the October 2046 Distribution Date, 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) and sell or liquidate all other Collateral, and all net proceeds from such liquidation and all available cash will be applied pursuant to the Priority of Payments on the Stated Maturity of 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 return of U.S.$250 of capital contributed to the Issuer by, and the payment of a U.S.$250 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.

The Issuer may, but under no circumstances will be required to, deposit or cause to be deposited from time to time cash (that is not proceeds of the Collateral) in a Collection Account (in addition to any amount required hereunder to be deposited therein) as it deems, in its

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sole discretion, to be advisable and by notice to the Trustee may designate that such cash (that is not proceeds of the Collateral) is to be treated as Principal Proceeds or Interest Proceeds hereunder at its discretion.

The Class A/B/C Overcollateralization Test

The Class A/B/C Overcollateralization Test will be used primarily to determine whether and to what extent Interest Proceeds may be used to pay amounts payable to the Class D Notes and the Class E Notes, to make distributions to the Preference Shareholders, and to pay certain other expenses. It will also affect the ability of the Issuer to reinvest in Substitute Collateral Debt Securities.

In the event that the Class A/B/C Overcollateralization 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 D Notes and the Class E Notes, make distributions on the Preference Shares and 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," the Class A/B/C Overcollateralization 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/C Overcollateralization Test will not apply prior to the Ramp-Up Completion Date.

The "Class A/B/C Overcollateralization Ratio" is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date *by* (b) the sum of (i) the Aggregate Outstanding Amount of the Class A Notes *plus* (ii) the Aggregate Outstanding Amount of the Class B Notes *plus* (iii) the Aggregate Outstanding Amount of the Class C Notes.

The "Class A/B/C Overcollateralization Test," for so long as any Class A Notes, Class B Notes or Class C Notes remain outstanding, will be satisfied on any Measurement Date occurring on or after the Ramp-Up Completion Date if the Class A/B/C Overcollateralization Ratio on such Measurement Date is equal to or greater than 102.23%.

The Class D Overcollateralization Test

The Class D Overcollateralization Test will be used primarily to determine whether and to what extent Interest Proceeds may be used to pay amounts payable to the Class E Notes, to make distributions to the Preference Shareholders, and to pay certain other expenses.

In the event that the Class D Overcollateralization 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 E Notes, make distributions on the Preference Shares and pay certain

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other expenses must instead be used to pay principal of the Class D 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," the Class D Overcollateralization 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 D Overcollateralization Test will not apply prior to the Ramp-Up Completion Date.

The "Class 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 Notes *plus* (ii) the Aggregate Outstanding Amount of the Class B Notes *plus* (iii) the Aggregate Outstanding Amount of the Class C Notes *plus* (iv) the Aggregate Outstanding Amount of the Class D Notes.

The "Class D Overcollateralization Test," for so long as any Class D Notes remain outstanding, will be satisfied on any Measurement Date occurring on or after the Ramp-Up Completion Date if the Class D Overcollateralization Ratio on such Measurement Date is equal to or greater than 101.07%.

Form, Denomination, Registration and Transfer

General

(i) The Offered Notes offered in reliance upon Regulation S ("Regulation S Notes"), which will be sold to persons that are not U.S. Persons in offshore transactions, will be represented by one or more permanent global notes ("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 Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg"); *provided, however*, that, at the option of the Issuer, the Class A-1A Notes may be initially offered in fully 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). 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 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) The Offered Notes offered in the United States in reliance upon an exemption from the registration requirements of the Securities Act will be represented by one or

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more global notes ("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; *provided, however*, that, at the option of the Issuer, the Class A-1A Notes may be initially offered in fully 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). 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 the "Global Notes." The Restricted Global Notes and any Secured Notes issued in definitive form under any exemption from the registration requirements of the Securities Act (other than Regulation S) are collectively referred to herein as the "Restricted Notes."

The Subordinate Notes will be represented by Notes in fully 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 Subordinate Notes will not be exchangeable or transferable for global notes. The Subordinate Notes may not be sold, transferred or exchanged in reliance upon Regulation S.

(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 (A) 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 (B) 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. In addition, at the option of the Issuer, the Class A-1A Notes may be initially offered in the form of Definitive Notes. The Notes are not issuable in bearer form.

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

(vi) Pursuant to the Fiscal Agency Agreement, LaSalle Bank National Association will be appointed and will serve as the registrar with respect to the Subordinate Notes (in such capacity, the "Subordinate Note Registrar") and will provide for the registration of Subordinate Notes and the registration of transfers of Subordinate Notes in the register maintained by it (the "Subordinate Note Register"). LaSalle Bank National Association will be

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appointed as a transfer agent with respect to the Subordinate Notes (in such capacity, the "Subordinate Note Transfer Agent").

(vii) 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.

(viii) 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.

(ix) After issuance, the Class D Notes and the Class E 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 Class E Deferred Interest Amount, respectively.

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 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 or the Fiscal Agency Agreement (as applicable) 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 the Fiscal Agency Agreement (as applicable) 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 Fiscal Agency Agreement (as applicable) 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 or the Fiscal Agency Agreement, as applicable), 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

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nominee, as the case may be, as the registered owner of the Global Note. None of the Issuer, the Trustee, the Fiscal Agent, the Secured Note Registrar, the Subordinate 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 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 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 Notes bearing an appropriate legend (a "Legend") regarding restrictions on transfer to be delivered. Upon the transfer, exchange or replacement of Definitive Notes bearing a Legend, or upon specific request for removal of a Legend on a Note, the Co-Issuers shall deliver through the Trustee or any Paying Agent (other than the Preference Share Paying Agent) to the holder and the transferee, as applicable, one or more Definitive Notes in certificated form corresponding to the principal amount of Definitive Notes surrendered for transfer, exchange or replacement that bear such Legend, or will refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of U.S. counsel, as may reasonably be required by the Issuer that neither the Legend nor the restrictions on transfer set forth therein is required to ensure compliance with the provisions of the Securities Act or the Investment Company Act. In addition, at the option of the Issuer, the Class A-1A Notes may be initially offered in the form of Definitive Notes, which will be subject to the requirements set forth of the preceding two sentences. Definitive Notes will be exchangeable or transferable for interests in other Definitive Notes as described below.

Transfer and Exchange of Notes

(i) No Secured Note (or any interest therein) may be transferred to a transferee acquiring an interest in a Restricted Note, except (a) to a transferee (i) that 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 (ii) that is a Qualified Purchaser, (b) in compliance with the certification (if any) and other requirements set

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forth in the Indenture and (c) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. No Subordinate Note (or any interest therein) may be transferred to a transferee, except (a) to a transferee (i) that is a Qualified Purchaser and (ii) either (A) that 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 (B) that is a Permitted Equity Investor entitled to take delivery of such Subordinate Note 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) in compliance with the certification (if any) and other requirements set forth in the Indenture and (c) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(ii) No Secured 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.

(iii) No Note (or any interest therein) may be transferred, and none of the Trustee and the Secured Note Registrar (in the case of the Secured Notes) and the Fiscal Agent and the Subordinate Note Registrar (in the case of the Subordinate Notes) 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 or the Fiscal Agency Agreement, as applicable (if the Indenture or the Fiscal Agency Agreement requires that a transfer certificate be delivered in connection with such a transfer).

(iv) No Subordinate Note may be offered, sold or transferred to, or held by, a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA and a wholly owned subsidiary of such a general account. Each purchaser of a Subordinate Note and each transferee thereof, will be required to represent, warrant and agree that it is not a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA and a wholly owned subsidiary of such a general account). No Subordinate Note may be transferred unless the transferee executes and delivers to the Issuer and the Fiscal Agent a transfer certificate in the form attached as an exhibit to the Fiscal Agency Agreement to the effect that, among other things, such transferee is not a Benefit Plan Investor.

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(v) 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 Secured 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 (x) Qualified Institutional Buyer to whom notice is given that the transfer is being made in reliance on Rule 144A and (y) to a Qualified Purchaser, and (b) 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 only in accordance with the Applicable Procedures, and upon receipt by, in the case of a Secured Note, the Secured 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, in the case of an interest in a Secured Note, to the Trustee, the Co-Issuers and the Secured Note Registrar of written certification from the transferee and transferor in the form provided for in the Indenture.

The Indenture provides, with respect to a Secured Note, that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner or holder of (A) a Regulation S Note (or any interest therein) is a U.S. Person or (B) a Restricted Note (or any interest therein) is not a Qualified Institutional Buyer and also a Qualified Purchaser, then either of the Co-Issuers (or the Collateral Advisor on its behalf) shall require, by notice to such beneficial owner or holder, as the case may be, that such beneficial owner or holder sell all of its right, title and interest to such Restricted Note (or any interest therein) to a person that (1) is not a U.S. Person (in the case of a person holding its interest through a Regulation S Note) or (2) in the case of a person holding its interest through a Restricted Note, is both (I) a Qualified Institutional Buyer and (II) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner or holder fails to effect the transfer required within such 30-day period, (i) upon direction from the Issuer (or the Collateral Advisor on its behalf), the Trustee shall, and is hereby irrevocably authorized by such beneficial owner or holder to, on behalf of and at the expense of the Issuer, cause such beneficial owner's or holder's interest in such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee or the Fiscal Agent (as applicable), 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, in the case of a Secured Note, the Trustee and the Co-Issuers in connection with such transfer, that such person (x) is not a U.S. Person (in the case of a person holding its interest through a Regulation S Note) or (y) is both (1) a Qualified Institutional Buyer and (2) a Qualified

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

(vi) 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, in the case of a Secured Note, the Secured Note Registrar of written certification from the transferor and the transferee 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 only in accordance with the Applicable Procedures, and upon receipt by, in the case of the Secured Notes, the Secured Note Registrar of a written certification from the transferor in the form provided in the Indenture.

An owner of a beneficial interest in a Note in the form of 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.

(vii) Subordinate Notes may be exchanged or transferred in whole or in part by surrendering such Subordinate Notes at the office of the Subordinate Note Registrar or with a written instrument of transfer and written certification from each of the transferor and the transferee in the form provided in the Fiscal Agency Agreement to the effect that, among other things, the transferee (a)(i) is a Qualified Institutional Buyer, or (ii) is a Permitted Equity Investor that is entitled to take delivery of such Subordinate Note 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 and (c) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle).

The Fiscal Agency Agreement provides, with respect to a Subordinate Note, that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner or holder of a Subordinate Note (or any interest therein) is not both (i) either (A) a Qualified Institutional Buyer or (B) a Permitted Equity Investor, and (ii) a Qualified Purchaser, then the Issuer (or the Collateral Advisor on its behalf) shall require, by notice to such beneficial owner or holder, as the case may be, that such beneficial owner or holder sell all of its right and title in or to such Subordinate Note (or any interest therein) to a person that is both (i) either (A) a Qualified Institutional Buyer or (B) a Permitted Equity Investor, 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 or holder fails to effect the transfer required within such 30-day period, (x) upon direction from the Issuer (or the Collateral Advisor on its behalf), the Fiscal Agent shall, and is hereby irrevocably authorized by such beneficial owner or holder to, on behalf of and at the expense of the Issuer, cause such beneficial owner's or holder's interest in

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such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Fiscal 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 Fiscal Agent and the Issuer, in connection with such transfer, that such person is both (i) either (A) a Qualified Institutional Buyer or (B) a Permitted Equity Investor, and (ii) a Qualified Purchaser, and (y) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner or holder and such Note shall be deemed not to be outstanding for the purpose of any vote or consent of the Noteholders.

In addition, if the Issuer determines that a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA (and a wholly owned subsidiary of such a general account) purchased a Subordinate Note (or, subsequent to the purchase of a Subordinate Note, any owner of a Subordinate Note becomes a Benefit Plan Investor (including for this purpose an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly owned subsidiary of such general account)), the Issuer (or the Collateral Advisor on its behalf) shall require, by notice to such Benefit Plan Investor, that such Benefit Plan Investor sell all of its right and title in or to such Subordinate Note in accordance with the Fiscal Agency Agreement, with such sale to be effected within 30 days after notice of such sale requirement is given. If such Benefit Plan Investor fails to effect the transfer required within such 30-day period, (x) upon written direction from the Issuer (or the Collateral Advisor on its behalf), the Fiscal Agent shall cause such Subordinate Note to be transferred in a commercially reasonable sale arranged by the Collateral Advisor (conducted by the Fiscal Agent or an investment bank selected by the Fiscal Agent in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a Person that certifies to the Fiscal Agent, the Issuer and the Collateral Advisor, in connection with such transfer, that such Person satisfies the requirements for a purchaser of a Subordinate Note and (y) pending such transfer, no further payments will be made in respect of such Subordinate Note and such Subordinate Note shall not be deemed to be outstanding for the purpose of any vote or consent of the Noteholders.

The Subordinate Notes may not be sold, offered or exchanged in reliance upon Regulation S.

(viii) 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.

(ix) Notes in the form of Definitive Notes (including Class A-1A Notes initially offered as Definitive Notes, if any) 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 Secured Note Transfer Agent (in the case of a Secured Note) or Subordinate Note Transfer Agent (in the case of a Subordinate Note) with a written instrument of transfer as provided, in the case of a Secured Note, in the Indenture or, in the case of a Subordinate Note, in

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the Fiscal Agency Agreement. 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 Secured Note Transfer Agent or the Subordinate Note Transfer Agent, as applicable.

(x) No service charge will be made for exchange or registration of transfer of any Note but the Trustee (in the case of a Secured Note) or the Fiscal Agent (in the case of a Subordinate Note) 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.

(xi) Definitive Notes issued in connection with the initial offering or 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.

(xii) The Secured Note Registrar will effect transfers of Global Notes that are Secured Notes and, along with the Secured Note Transfer Agent, will effect exchanges and transfers of Definitive Notes that are Secured Notes. In addition, the Secured Note Registrar will keep in the Secured Note Register records of the ownership, exchange and transfer of any Secured Note in definitive form. The Subordinate Note Registrar will effect transfers of Restricted Global Notes that are Subordinate Notes and, along with the Subordinate Note Transfer Agent, will effect exchanges and transfers of Definitive Notes that are Subordinate Notes. In addition, the Subordinate Note Registrar will keep in the Subordinate Note Register records of the ownership, exchange and transfer of any Subordinate Note in definitive form.

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

(xiv) Subject to compliance with the transfer restrictions applicable to the Notes described above and under "Transfer Restrictions," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective 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

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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.

(xv) 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.

(xvi) 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.

(xvii) 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").

(xviii) 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, the Trustee or the Fiscal Agent 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.

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(xix) The Issuer may impose additional transfer restrictions to comply with the USA PATRIOT Act, to the extent that it is applicable to the Issuer and, in such event, each holder of Notes will be required to comply with such transfer restrictions.

No Gross-Up

All payments 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.

Indenture Events of Default

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

(i) a default in the payment of any accrued interest (a) on any Class A-1A Note, Class A-1B 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 or (c) on any Class C Note when the same becomes due and payable, in each case which default continues for a period of five Business Days;

(ii) a default in the payment of principal of any Secured Note when the same becomes due and payable at its Stated Maturity or Redemption Date (and, 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 a Paying Agent with respect to the Subordinate Notes) or the Secured 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 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 a Paying Agent with respect to the Subordinate Notes) or the Secured Note Registrar, such default continues for a period of five Business Days) after any of the Issuer, the Co-Issuer or the Collateral Advisor has actual knowledge thereof or after notice thereof (x) to the Issuer and the Collateral Advisor by the Trustee, (y) to the Issuer and the Trustee by the Collateral Advisor or (z) to the Issuer, the Collateral Advisor 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,

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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;

(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, an Overcollateralization Test, the Class A Sequential Pay Test, the Standard & Poor's CDO Monitor 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 or warranty is reasonably expected to have a material and adverse effect on the interest of any of the Secured 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 consecutive days) after any of the Issuer, the Co-Issuer or the Collateral Advisor has actual knowledge thereof or after notice thereof (x) to the Issuer and the Collateral Advisor by the Trustee, (y) to the Issuer and the Trustee by the Collateral Advisor or (z) to the Issuer, the Collateral Advisor 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);

(vii) the occurrence of a Fiscal Agency Agreement Event of Default; or

(viii) the Class A-1A Par Value Ratio is less than 102% on any Measurement Date on which any Class A-1A Note is outstanding.

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

If an Indenture Event of Default occurs and is continuing (other than an Indenture Event of Default described in clause (vi) of the definition of "Indenture Event of Default"), (a) the Trustee (at the direction of the holders of a majority in Aggregate Outstanding Amount of Notes of the Controlling Class by notice to the Co-Issuers) or (b) holders of a majority in Aggregate Outstanding Amount of the Notes of the Controlling Class by notice to the Co-Issuers and the Trustee, may declare the principal of and accrued and unpaid interest on all of the Notes to be immediately due and payable. If an Indenture Event of Default described in clause (vi) of the definition of "Indenture Event of Default" occurs, all unpaid principal, together with all

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accrued and unpaid interest will become immediately due and payable without any declaration or other act on the part of the Trustee or any Noteholder.

Notwithstanding the foregoing, if the sole Indenture Event of Default is an Indenture Event of Default described in clause (i), clause (ii) or clause (vii) of the definition of "Indenture Event 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.

If an Indenture Event of Default occurs and is continuing when any Secured Note is outstanding, 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:

(A) the Trustee determines that the anticipated net proceeds of a sale or liquidation of such Collateral (after deducting the reasonable expenses of such sale or liquidation) would be sufficient to discharge in full the amounts then due and unpaid on the Notes for principal and interest (including the Class D Deferred Interest Amount, the Class E Deferred Interest Amount, Defaulted Interest and interest on Defaulted Interest, if any), and to pay due and unpaid Administrative Expenses and Trustee Fee, 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 Trustee Fees and Advisory Fees;

(B) the holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of each Class of Notes and each Hedge Counterparty (unless no early termination payment (other than Unpaid Amounts, as defined in the related Hedge Agreement) 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; or

(C) for so long as the Class A-1A Notes are the Controlling Class, in the case of an Indenture Event of Default described under clause (i) or (viii) of the definition thereof, the holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of the Controlling Class, direct the sale of the Collateral.

If any 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 sixth 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,

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the Collateral Advisor, each Hedge Counterparty 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.

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.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Indenture 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.

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 Indenture Event of Default described in clause (vi) of the definition of "Indenture Event 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 Indenture 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, (iii) such holders have offered the Trustee indemnity satisfactory to it, (iv) the Trustee has for 30 days failed to institute any such proceeding and (v) 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 in Aggregate Outstanding Amount of the Notes of the Controlling Class, the Trustee shall follow the instructions of the group representing the higher percentage of interest in the Aggregate Outstanding Amount of the Notes of the Controlling Class.

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Notices

Notices to the Secured Noteholders will be given by first-class mail, postage prepaid, to the registered holders of the Notes at their address appearing in the Secured Note Register. If and for so long as any Class of Secured 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 official list.

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 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 under the Hedge Agreement, within ten days following notice by the Trustee to such parties of the proposed supplemental indenture, the Trustee is entitled to receive and conclusively rely upon an officer's certificate of the Issuer (or of the Collateral Advisor 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. 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 adversely affected thereby, 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 on any Note, reduces the principal amount thereof or the rate of interest thereon, or the redemption price with respect thereto, changes the earliest date on which the Issuer may redeem any Note, changes the Priority of Payments so as to affect application of proceeds of any Collateral to the payment of principal of or interest 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 thereon is payable, or impairs the right to institute suit for the enforcement of any such payment on or after

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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 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 (other than a Subordinate 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 consent is required for any action or to provide that certain 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 "Indenture Event of Default" or "Fiscal Agency Agreement 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 set forth above unless the Rating Condition with respect to Standard & Poor's shall have been satisfied with respect to such supplemental indenture or the consent of each adversely affected holder of Notes (and each Hedge Counterparty to the extent required by the related Hedge Agreement) has been obtained with respect thereto.

Except as set forth in the immediately following paragraph, for so long as the Class A-1A Notes are the Controlling Class, the Issuer shall not enter into any supplemental indentures without the consent of Holders of at least 66⅔ of the Aggregate Outstanding Amount of the Notes of the Controlling Class.

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 that 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

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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 (as amended) (enacted in the Cayman Islands), The Money Laundering Regulations (as amended) (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 Securities, (xii) accommodate the issuance of any Class of Notes as Definitive Notes, (xiii) 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 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 Moody's Asset Correlation Test or (3) any reference in the Indenture to "Moody's Rating" or a rating assigned by Moody's, or (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; (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 therefore; (xix) take any action necessary or advisable to prevent the Issuer (without adverse effect upon the Issuer or holders of Securities) from failing to qualify as a Qualified REIT Subsidiary; or (xx) enable the Issuer to avoid

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becoming, or being obligated to register as, an investment company under the Investment Company Act.

In each case (other than pursuant to clause (xiv), (xvi) or (xx)), 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, (A) the Rating Condition with respect to Standard & Poor's would not be satisfied and (B) solely with respect to clauses (xvii) and (xviii) above, the Rating Condition with respect to Moody'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 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 Advisor.

The Trustee may rely upon an officer's certificate of the Issuer (or the Collateral Advisor 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 the applicable Hedge Agreement. In addition, the Issuer may not enter into any supplemental indenture without the written consent of the Collateral Advisor if such supplemental indenture alters the rights or obligations of the Collateral Advisor in any respect, and the Collateral Advisor will not be bound by any such supplemental indenture unless the Collateral Advisor shall have given its prior written consent or has not responded within 30 days after the Issuer or the Trustee has provided it with written notice thereof.

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 Overcollateralization Tests or the Class A-1A Par Value Ratio (a "Overcollateralization Test Modification"), the Issuer may, at the direction of the Collateral Advisor, incorporate corresponding changes into the Indenture without the consent of the holders of the Notes and Preference Shares if (i) (A) in the case of a Collateral Quality Test Modification, the Rating Condition is satisfied with respect to the Rating Agency that made such change or (B) in the case of an Overcollateralization Test Modification, 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 Advisor 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 Trustee and the consent of the Initial Hedge Counterparty to the extent that each such consent is required pursuant to the Initial 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 Advisor, the Preference Share Paying Agent, the Fiscal Agent, each Hedge Counterparty, the Paying Agent in Ireland (if and for so long as any Class of Notes is

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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 or termination of the Fiscal Agency Agreement, the Account Control Agreement, the Collateral Advisory Agreement, the Collateral Administration Agreement, the Administration Agreement or any Hedge Agreement, the Issuer is required by the Indenture to notify the Rating Agencies of such amendment or termination. In addition, any amendment to a Hedge Agreement shall have been consented to by the Hedge Counterparty party thereto and shall have satisfied the Rating Condition. Prior to granting any waiver in respect of any of the foregoing agreements, the Issuer is required to provide each Rating Agency, the Collateral Advisor, each Hedge Counterparty, the Fiscal Agent and the Trustee with written notice of such waiver. The amendment to and waiver of provisions of the Collateral Advisory Agreement are also subject to additional restrictions as described herein under "The Collateral Advisory Agreement." The Initial Hedge Counterparty, the Collateral Advisor, each Subordinate Noteholder, each Financing Party and each Preference Shareholder will be an express third party beneficiary of the Indenture.

The amendment and waiver of provisions of the Fiscal Agency Agreement are also subject to additional restrictions as described herein under "Fiscal Agency Agreement."

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 (plus one day) then in effect.

Acts of Noteholders

In determining whether the holders of the requisite percentage of Notes or Preference Shares have given any direction, notice, consent or waiver (i) Notes or Preference Shares 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 Advisor under the Collateral Advisory Agreement or the Indenture (including the exercise of any right to remove the Collateral Advisor or terminate the Collateral Advisory Agreement, but excluding any right to select a replacement Collateral Advisor), or any amendment or other modification of the Collateral Advisory Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Advisor, Notes or Preference Shares that are Collateral Advisor Securities, shall be disregarded and deemed not to

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be outstanding; *provided* that the Collateral Advisor and its Affiliates will be entitled to vote Notes or Preference Shares owned or controlled by them, or by accounts managed by them, with respect to all other matters.

Notwithstanding anything to the contrary contained herein, with respect to any Noteholder which has notified the Trustee in writing that pursuant to such Noteholder's organizational documents or other documents governing such Noteholder's actions, such Noteholder is not permitted to take any affirmative action approving, rejecting or otherwise acting upon any Issuer request including, but not limited to, a request for the consent of such Noteholder to a proposed amendment or waiver pursuant to the Indenture, the failure by such Noteholder to consent to or reject any such requested action will be deemed a consent by such Noteholder to the requested action.

A holder of the Class A-1A Notes may notify the Trustee in writing that, so long as it holds the Class A-1 Notes, (i) all voting and consent rights relating to such Class A-1A Notes may be exercised by an entity (a "credit protection seller") with which it has made a credit derivative transaction relating to the Class A-1A Notes or any designee of such credit protection, in which event the credit protection seller or any entity designated by it in a written notice to the Trustee may exercise all voting and consent rights relating to such Class A-1A Notes and (ii) all notices to Holders of the Class A-1A Notes will be provided by the Trustee to the credit protection seller and such designated entity.

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 Preference Share Paying Agency Agreement, the Fiscal Agency Agreement, the Administration Agreement, each Hedge Agreement and the Collateral Advisory Agreement.

Reports

The Issuer will provide (or cause to be made available) monthly reports containing certain information regarding the Collateral Debt Securities to each Rating Agency, the Trustee, the Collateral Advisor, the Preference Share Paying Agent, the Initial Purchaser, MLI, the Fiscal Agent, each Hedge Counterparty and each transfer agent, and upon written request therefore and subject to the Indenture, any holder of a Secured Note shown on the Secured Note Register, and (so long as any Notes are listed on the Irish Stock Exchange) the Irish Stock Exchange or its agent. The Issuer will also provide (or cause to be made available) monthly reports regarding the distributions to be made by the Issuer to the Collateral Advisor, each Rating Agency, the Trustee, the Preference Share Paying Agent, the Initial Purchaser, MLI, the Fiscal Agent, each Hedge Counterparty (and the Initial Hedge Counterparty until the Stated Maturity or Redemption Date), each Paying Agent and each transfer agent and, upon written request therefor and subject to the Indenture, any holder of a Secured Note shown on the Secured

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Note Register and (so long as any Notes are listed on the Irish Stock Exchange) the Irish Stock Exchange or its agent, not later than the related Distribution Date.

Trustee

LaSalle Bank National Association, located at 181 West Madison Street, 32nd Floor, Chicago, Illinois 60602 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 Secured Noteholders to secure payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer under the Indenture (subject to the dollar limitations set forth in the Priority of Payments with respect to any Distribution Date), which lien the Trustee is entitled to exercise only under certain circumstances. 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, (i) the Trustee may resign at any time by providing 30 days' prior written notice to the Co-Issuers, the Noteholders, the Hedge Counterparties, each Rating Agency, the Collateral Advisor, the Fiscal Agent and the Preference Share Paying Agent, and (ii) the Trustee may be removed at any time on 10 days' prior written notice (i) by holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of Secured Notes of each Class or (ii) when an Indenture 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, which successor Trustee must also be the Fiscal Agent pursuant to the Fiscal Agency Agreement. If the Trustee shall resign or be removed, the Trustee shall also resign as Paying Agent, Calculation Agent, Secured Note Registrar and any other capacity in which the Trustee is then acting pursuant to the Indenture, the Preference Share Paying Agency Agreement, the Fiscal Agency Agreement, the Collateral Administration Agreement and the Account Control Agreement.

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 Advisor and LaSalle 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

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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 LaSalle 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

For U.S. Federal income tax purposes, the Offered Notes will be treated as debt unless and until an applicable taxing authority requires otherwise. The Indenture will provide that each holder, by accepting an Offered Note, agrees to such treatment in such circumstances and not to take any action inconsistent with such treatment.

Governing Law

The Secured Notes, the Indenture, the Collateral Advisory Agreement, the Collateral Administration Agreement, the Fiscal Agency Agreement, the Preference Share Paying Agency Agreement, each Hedge Agreement and the Purchase Agreement will be governed by, and construed in accordance with, the laws of the State of New York.

The Fiscal Agency Agreement

The Subordinate Notes will be issued pursuant to a deed of covenant dated as of the Closing Date (the "Deed of Covenant") by the Issuer and will be administered pursuant to a fiscal agency agreement dated as of the Closing Date (the "Fiscal Agency Agreement") between the Issuer and LaSalle Bank National Association, as fiscal agent (in such capacity, together with its successors and assigns in such capacity, the "Fiscal Agent"). The following summary describes certain provisions of the Fiscal Agency 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 Fiscal Agency Agreement. After the Closing Date, copies of the Deed of Covenant and the Fiscal Agency Agreement may be obtained by prospective investors upon written request to the Fiscal Agent at 181 West Madison Street, 32nd Floor, Chicago, Illinois 60602, Attention: CDO Trust Services Group–Kleros Real Estate CDO II, Ltd.

Status and Security

The Subordinate Notes are limited-recourse obligations of the Issuer and, except as described below, are not secured by the Collateral Debt Securities or any other Collateral securing the Secured Notes or the obligations of the Issuer to any other Secured Parties. The Issuer has, pursuant to the Indenture, pledged substantially all of its assets to secure its obligations to the Secured Parties. However, to the extent that the holders of the Secured Notes or other Secured Parties receive amounts that otherwise would be distributable to the Subordinate Notes in accordance with the Priority of Payments, the Indenture provides that the claims of such Secured Parties will be subordinate to the Subordinate Notes as to such amounts and the Indenture will constitute an enforceable subordination agreement within the meaning of Section 510(a) of the Bankruptcy Code. In the event that the Indenture is not considered an enforceable subordination agreement with respect to the obligations of the Secured Parties that rank junior in right to payment to amounts owed to the holders of the Subordinate Notes pursuant

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to the Priority of Payments, the rights of the holders of Subordinate Notes to receive payments will rank behind the rights of all Secured Parties. In such event, any right of the holders of the Subordinate Notes to receive payments after the Issuer's assets have been exhausted will be deemed to be discharged and extinguished. See "Description of the Notes—Priority of Payments."

On the Closing Date, the Class D Notes will be secured by a security interest in the Class D Collateral granted to the Fiscal Agent (as collateral agent for the Class D Noteholders) under the Fiscal Agency Agreement, which security interest will be subordinate to the security interest in the Collateral granted to the Trustee under the Indenture. On the Closing Date, the Class E Notes will be secured by a security interest in the Class E Collateral granted to the Fiscal Agent (as collateral agent for the Class E Noteholders) under the Fiscal Agency Agreement, which security interest will be subordinate to the security interest in the Collateral granted to the Trustee under the Indenture and the security interest in the Class D Collateral granted to the Fiscal Agent (as collateral agent for the Class D Noteholders) under the Fiscal Agency Agreement.

On or after the Closing Date, the Issuer may grant a security interest (under a separate security agreement) in the Collateral to the Fiscal Agent (as collateral agent) for the benefit of the Subordinate Notes, if such security interest is subordinated, to the same extent that the Subordinate Notes are subordinated under the Indenture, to the grant of the security interest in the Collateral under the Indenture for the benefit of the Secured Notes and contains customary standstill (applicable during such time as any Secured Notes are outstanding) and subordination provisions. Prior to taking any such action, the Issuer will obtain advice from tax counsel of nationally recognized standing that such action will not affect the conclusions in the opinions relating to U.S. Federal tax matters delivered on the Closing Date. In the event that such a security agreement is entered into by the Issuer, the Subordinate Notes will not derive any benefit from it while the Secured Notes are outstanding.

Fiscal Agency Agreement Events of Default

A "Fiscal Agency Agreement Event of Default" is defined in the Fiscal Agency Agreement as:

(i) if there are no Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes or Class C Notes outstanding, a default in the payment of any accrued interest on any Class D Note when the same becomes due and payable, which default continues for a period of five Business Days, or if there are no Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes, Class C Notes or Class D Notes outstanding, a default in the payment of any accrued interest on any Class E Note when the same becomes due and payable, which default continues for a period of five Business Days;

(ii) a default in the payment of principal of any Class D Note or Class E 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, a Paying Agent (other than the Preference Share Paying Agent or a

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Paying Agent with respect to the Secured Notes) or the Subordinate Note Registrar, such default continues for a period of five Business Days);

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

(iv) the occurrence of an Indenture Event of Default.

Indenture Events of Default and Fiscal Agency Agreement Events of Default" are collectively referred to herein as "Events of Default."

Notices

Notices to the Subordinate Noteholders will be given by first-class mail, postage prepaid, to the registered holders of the Subordinate Notes at their address appearing in the Subordinate Note Register. If and for so long as any Class of Subordinate 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 given by the Fiscal Agent to the Irish Listing Agent for publication in the Irish Stock Exchange's official list.

Amendment of the Fiscal Agency Agreement

The Issuer may amend the Fiscal Agency Agreement without the consent of the Subordinate Noteholders, under the same or similar circumstances that a supplemental indenture may be entered into without the consent of the holders of the Secured Notes. See "—The Indenture—Modification of the Indenture." The Issuer may not consent to any amendment of the Fiscal Agency Agreement without the consent of each Class D Noteholder 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 interest, principal or final payments on the Class D Notes or (ii) reduce the voting percentage of holders of Class D Notes required to consent to any amendment to the Fiscal Agency Agreement that requires the consent of the holders of any Class D Notes. The Issuer may not consent to any amendment of the Fiscal Agency Agreement without the consent of each Class E Noteholder 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 interest, principal or final payments on the Class E Notes or (ii) reduce the voting percentage of holders of Class E Notes required to consent to any amendment to the Fiscal Agency Agreement that requires the consent of the holders of any Class E Notes.

Consolidation, Merger or Transfer of Assets

Except under the limited circumstances set forth in the Fiscal Agency Agreement, 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

The Fiscal Agency Agreement provides that the holders of the Subordinate Notes (other than the Controlling Class of Notes) and the Fiscal Agent will agree not to cause or join in

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the filing of a petition for winding up or a petition in bankruptcy against the Issuer before one year and one day have elapsed since the final payments to the holders of the Subordinate Notes or, if longer, the applicable preference period (including any period established pursuant to the laws of the Cayman Islands then in effect) plus one day.

Satisfaction and Discharge of Fiscal Agency Agreement

The Fiscal Agency Agreement will be discharged upon delivery to the Fiscal Agent for cancellation of all of the Subordinate Notes, or, subject to certain limitations, upon deposit with the Fiscal Agent of funds sufficient for the payment or redemption of the Subordinate Notes and the payment by the Issuer of all other amounts due under the Subordinate Notes, the Fiscal Agency Agreement, the Indenture, the Collateral Administration Agreement, the Administration Agreement, each Hedge Agreement and the Collateral Advisory Agreement.

Fiscal Agent

LaSalle Bank National Association will be the Fiscal Agent under the Fiscal Agency Agreement. The Issuer and its respective affiliates may maintain other banking relationships in the ordinary course of business with the Fiscal Agent. The payment of the fees and expenses of the Fiscal Agent is solely the obligation of the Issuer. The Fiscal Agent and its affiliates may receive compensation in connection with the investment of trust assets in certain Eligible Investments as provided in the Fiscal Agency Agreement. Eligible Investments may include investments for which the Fiscal Agent and/or its affiliates provide services. The Fiscal Agency Agreement contains provisions for the indemnification of the Fiscal Agent for any loss, liability or expense incurred without gross negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Fiscal Agency Agreement. Pursuant to the Indenture, the Issuer has granted to the Fiscal Agent a lien senior to that of the Noteholders to secure payment by the Issuer of the compensation and expenses of the Fiscal Agent and any sums the Fiscal Agent may be entitled to receive as indemnification by the Issuer under the Fiscal Agency Agreement (subject to the dollar limitations set forth in the Priority of Payments with respect to any Distribution Date), which lien the Fiscal Agent is entitled to exercise only under certain circumstances. In the Fiscal Agency Agreement, the Fiscal Agent will agree not to cause or join in the filing of a petition for winding up or a petition in bankruptcy against the Issuer for nonpayment to the Fiscal Agent of amounts payable thereunder until at least one year and one day, or if longer, the applicable preference period then in effect, including any period established pursuant to the laws of the Cayman Islands (plus one day), 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 Fiscal Agency Agreement, (i) the Fiscal Agent may resign at any time by providing 30 days' prior written notice to the Co-Issuers, the Noteholders, the Hedge Counterparties, each Rating Agency, the Collateral Advisor and the Trustee, and (ii) the Fiscal Agent may be removed at any time on 10 days prior written notice (x) by holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of the Subordinate Notes of each Class or (y) if a Fiscal Agency Agreement Event of Default shall have occurred and be continuing by holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of the Controlling Class, if the Class D Notes or the Class E Notes are the Controlling Class, in each case delivered to the Fiscal Agent and to the Issuer. However, no resignation or removal of the Fiscal Agent will become effective until the acceptance of appointment by a successor Fiscal Agent pursuant

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to the terms of the Fiscal Agency Agreement, which successor Fiscal Agent must also be the Trustee pursuant to the Indenture. If the Fiscal Agent shall resign or be removed, the Fiscal Agent shall also resign as Paying Agent, Subordinate Note Registrar and any other capacity in which the Fiscal Agent is then acting pursuant to the Fiscal Agency Agreement.

The Fiscal Agent, in addition to its capacity as Fiscal Agent, will be required to act in the capacity of trustee with respect to the Subordinate Notes. In such capacity as trustee, the Fiscal Agent will be required to operate under the same standards of care, the same rights and responsibilities with respect to the Subordinate Notes and the Subordinate Noteholders as the Trustee is bound with respect to the Secured Notes and the Secured Noteholders pursuant to the Indenture.

Tax Characterization

The Subordinate Notes are not offered hereby and the tax characterization of the Subordinate Notes is not discussed herein.

Governing Law

The Fiscal Agency Agreement will be governed by, and construed in accordance with the laws of the State of New York. The Deed of Covenant and the Subordinate Notes will be governed by, and construed in accordance with, the laws of the Cayman Islands.

Class D Note Payment Account

The Fiscal Agent will be required, prior to the Closing Date, to cause to be established a segregated Securities Account which will be designated as the "Class D Note Payment Account," which will be held in the name of the Fiscal Agent for the benefit of the Issuer and which may be a sub-account of an account established under the Indenture. Any and all funds at any time on deposit in, or otherwise to the credit of, the Class D Note Payment Account will be required to be held by the Fiscal Agent for the benefit of the Issuer. On each Distribution Date, all amounts on deposit in the Class D Note Payment Account will be required to be applied by the Fiscal Agent to make payments on the Class D Notes in accordance with the Priority of Payments under the Indenture. The Class D Note Payment Account will be required to remain at all times with a financial institution having a long-term debt rating of at least "Baa1" by Moody's (and, if rated "Baa1" by Moody's, not be on watch for possible downgrade by Moody's) and at least "BBB+" by Standard & Poor's.

Class E Note Payment Account

The Fiscal Agent will be required, prior to the Closing Date, to cause to be established a segregated Securities Account which will be designated as the "Class E Note Payment Account," which will be held in the name of the Fiscal Agent for the benefit of the Issuer and which may be a sub-account of an account established under the Indenture. Any and all funds at any time on deposit in, or otherwise to the credit of, the Class E Note Payment Account will be required to be held by the Fiscal Agent for the benefit of the Issuer. On each Distribution Date, all amounts on deposit in the Class E Note Payment Account will be required to be applied by the Fiscal Agent to make payments on the Class E Notes in accordance with the

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Priority of Payments under the Indenture. The Class E Note Payment Account will be required to remain at all times with a financial institution having a long-term debt rating of at least "Baa1" by Moody's (and, if rated "Baa1" by Moody's, not be on watch for possible downgrade by Moody's) and at least "BBB+" by Standard & Poor's.

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DESCRIPTION OF THE PREFERENCE SHARES

The Preference Shares will be issued pursuant to the Issuer Charter and will be subscribed for in accordance with the terms of the Subscription Agreement for Preference Shares. The following summary describes certain provisions of the Preference Shares, the Issuer Charter and the Preference Share Paying Agency Agreement. 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 and the Preference Share Paying Agency Agreement. After the Closing Date, copies of the Issuer Charter and the Preference Share Paying Agency Agreement may be obtained by prospective investors upon request in writing to the Preference Share Paying Agent at 181 West Madison Street, 32nd Floor, Chicago, Illinois 60602, Attention: CDO Trust Services Group–Kleros Real Estate CDO II, Ltd.

Status

The Issuer will issue 4,000 Preference Shares on the Closing Date, each with a par value of U.S.$0.01 per share, at an issue price 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. The obligations of the Issuer under the Preference Shares are payable solely from amounts distributed to the Preference Shareholders in accordance with the Priority of Payments, and, following realization of the Collateral under the Indenture, any claims of the Preference Shareholders against the Issuer will be extinguished. The Preference Shares do not have any principal amount, and the Notional Amount is used solely for certain calculations under the Indenture.

Distributions

On each Distribution Date, to the extent that 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; *provided, however*, that if the Class D Notes or the Class E Notes remain outstanding on or after the August 2014 Distribution Date, then any Interest Proceeds that would otherwise be distributed to the Preference Share Paying Agent on any such Distribution Date will instead be used to pay principal *pro rata* of the Class D Notes and the Class E Notes based upon their respective principal amounts until the Class D Notes and the Class E Notes have been paid in full. 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 Secured 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

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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 other 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 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 an Overcollateralization Test is not satisfied on the Determination Date related to any Distribution Date, Interest Proceeds that would otherwise be distributed to Preference Shareholders on the related Distribution Date will be used instead to repay principal of the Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes (or, in the case of the Class D Overcollateralization Test, solely the Class D 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 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—Interest Proceeds.

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 (but not more than 90 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.

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The Issuer Charter

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

Voting Rights

Set forth below is a summary of certain matters with respect to which Preference Shareholders are entitled to vote. This summary is not meant to be an exhaustive list, and, subject to covenants made by each Preference Shareholder in the Subscription Agreement 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 Advisory 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 at the direction of a Majority-in-Interest of Preference Shareholders, as described above under "—Optional Redemption of the Preference Shares."

The Collateral Advisory Agreement: For a description of certain of the provisions relating to the termination of the Collateral Advisory Agreement and the appointment of a replacement Collateral Advisor, see "The Collateral Advisory 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—The Indenture—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

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

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 passing by the holders of the Ordinary Shares of a resolution to wind up the Issuer, (ii) at any time after the sale or other disposition of all of the Issuer's assets, upon the passing by the holders of the Ordinary Shares of a resolution to wind up the Issuer, (iii) at any time after the Notes are paid in full, upon the passing by the holders of the Ordinary Shares of a resolution to wind up 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 of the Notes and Prepayment Considerations."

On the passing of a resolution to wind up 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:

(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 holders of the ordinary shares the nominal amount paid up thereon and the sum of U.S.$1.00 per ordinary share; and

(5) *fifth*, 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.

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Petitions for Bankruptcy

The Preference Share Paying Agent will agree in the Preference Share Paying Agency Agreement that it will not cause or join in the filing of a winding-up petition or 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.

Form, Registration and Transfer

General

(i) Preference Shares will be represented by certificates 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 such Preference Shares. The Preference Shares may not be sold to persons that are not U.S. Persons in reliance upon Regulation S.

(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.

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

(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 will issue 4,000 Preference Shares, each with a par value of U.S.$0.01 per share.

(vii) The minimum number of Preference Shares to be issued to an investor will initially be 250, or integral multiples of one share in excess thereof, *provided* that the Issuer may,

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with the consent of the Initial Purchaser, authorize Preference Shares to be issued in a minimum number of 100 Preference Shares.

Transfer and Exchange of Preference Shares

(i) 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 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 (a)(i) is a Qualified Institutional Buyer, or (ii) is a Permitted Equity Investor that is entitled to take delivery of 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) except as otherwise provided herein with respect to Preference Shares, is not a Benefit Plan Investor or a Controlling Person. With respect to any transfer of a portion of Preference Shares, the transferor will be entitled to receive new Preference Shares, representing the liquidation amount retained by the transferor after giving effect to such transfer. 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.

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 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."

(iii) No Preference Shares may be held by or transferred to a person that is a Benefit Plan Investor or a Controlling Person, unless, after giving effect to such acquisition or transfer, less than 25% of the Preference Shares would be held by Benefit Plan Investors (determined after disregarding the Preference Shares held by Controlling Persons).

The Preference Share Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that (i) an Original Purchaser of a Preference Share or a subsequent transferee of a Preference Share that is a Benefit Plan Investor or a Controlling Person did not disclose in a Subscription Agreement or a transfer

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certificate in the form attached to the Preference Share Paying Agency Agreement delivered to the Issuer at the time of its acquisition of such Preference Share that it is a Benefit Plan Investor or a Controlling Person, (ii) subsequent to the purchase of a Preference Share, any owner of a Preference Share becomes a Benefit Plan Investor (including for these purposes an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly owned subsidiary of such general account) or a Controlling Person or (iii) as a result of a transfer of a Preference Share, 25% or more of the Preference Shares are held by Benefit Plan Investors (determined after disregarding the Preference Shares held by Controlling Persons), then the Issuer (or the Collateral Advisor on its behalf) shall require, by notice to such owner, that such owner sell all of its right and title in or to such Preference Shares to a Person that is (A) both (i) either (a) a Qualified Institutional Buyer or (b) a Permitted Equity Investor that is entitled to take delivery of such Preference Shares 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) in all cases, neither a Benefit Plan Investor nor a Controlling Person, with such sale to be effected within 30 days after notice of such sale requirement is given. If such owner or holder fails to effect the transfer required within such 30-day period, (I) upon written direction from the Issuer (or the Collateral Advisor on its behalf), the Preference Share Paying Agent (on behalf of and at the expense of the Issuer) shall cause such owner's or holder's Preference Shares 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 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)(a) a Qualified Institutional Buyer or (b) a Permitted Equity Investor entitled to take delivery of such Preference Shares 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) in all cases, neither a Benefit Plan Investor nor 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 Subscription Agreement 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

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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.

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

No Gross-Up

All distributions of dividends and return of capital on the Preference Shares will be made without any deduction or withholding for or on account of any tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If the Issuer is so required to deduct or withhold, then the Issuer will instruct the Preference Share Paying Agent to make such deduction or withholding and 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 Securities will be approximately U.S.$998,700,000. The net proceeds from the issuance and sale of the Securities and the Up Front Payment (net of the Issuer Up Front Payment) are expected to be approximately U.S.$993,500,000 which reflects the payment by the Issuer from such gross proceeds of the expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Advisor, the Placement Agent 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, an upfront fee payable to the Collateral Advisor, the expenses of offering the Securities (including fees payable to the Initial Purchaser and the Placement Agent in connection with the offering of the Securities) and the initial deposits into the Expense Account and the Reserve Account. Such net proceeds will be used by the Issuer to purchase a portfolio of interests in RMBS and CMBS. 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.$900,000,000. Any proceeds not invested in Collateral Debt Securities or deposited into the Expense Account or the 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, or as otherwise described herein. Any Uninvested Proceeds remaining on the Ramp-Up Completion Date will be applied as described under "Security for the Notes—The Accounts—Uninvested Proceeds Account.

RATINGS OF THE OFFERED NOTES

It is a condition to the issuance of the Securities that the Class A-1A Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-1B Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by Standard & Poor's, that the Class C Notes be rated at least "Aa3" by Moody's and at least "AA-" by Standard & Poor's, that the Class D Notes be rated at least "Baa2" by Moody's and at least "BBB" by Standard & Poor's and that the Class E Notes be rated at least "Ba2" by Moody's and at least "BB" by Standard & Poor's. 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.

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 (such confirmation, 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 the Irish Paying Agent if the ratings assigned to any Class of Notes are reduced or withdrawn.

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MATURITY, PREPAYMENT AND YIELD CONSIDERATIONS

The Stated Maturity of the Notes is the Distribution Date in November 2046. The Notes will mature at their Stated Maturity unless redeemed or repaid prior thereto. However, the average lives of the Notes 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 August 2014 pursuant to an Auction Call Redemption 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 5.38%, (i) the average life of the Class A-1A Notes would be approximately 4.9 years from the Closing Date, (ii) the average life of the Class A-1B Notes would be approximately 5.9 years from the Closing Date, (iii) the average life of the Class A-2 Notes would be approximately 5.9 years from the Closing Date, (iv) the average life of the Class B Notes would be approximately 5.9 years from the Closing Date, (v) the average life of the Class C Notes would be approximately 5.9 years from the Closing Date, (vi) the average life of the Class D Notes would be approximately 5.9 years from the Closing Date and (vii) the average life of the Class E Notes would be approximately 5.9 years from the Closing Date. Such average lives of the Notes 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 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 or the Reinvestment 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 set forth above, and consequently the actual average lives of the Notes 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, accordingly, their own evaluation of the merits and risks of an investment in the Notes. 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 average lives of the Notes 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) and the extent to which such payments are reinvested by the Issuer. The actual average lives of the Notes 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.

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Any acquisition or disposition of a Collateral Debt Security may change the composition and characteristics of the Collateral Debt Securities and the rate of payment thereon, and, accordingly, may affect the actual average lives of the Notes. 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.

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THE CO-ISSUERS

General

The Issuer, a special purpose vehicle, was incorporated as an exempted company with limited liability and registered on June 9, 2006 in the Cayman Islands pursuant to the Issuer Charter, has a registered number of 169067 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 telephone number is (345) 945-3727. The Issuer has no prior operating experience (other than entering into the warehouse facility and credit facility described under "Risk Factors—Risk Factors Relating to Conflicts of Interests and Dependence of the Collateral Advisor—Purchase of Collateral Debt Securities" herein) 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 Advisory Agreement, the Hedge Agreements and the Issuer's obligations to the Trustee. The entire authorized share capital of the Issuer will consist of (a) 250 ordinary shares, par value U.S.$1.00 per share (the "Ordinary Shares") and (b) 4,000 Preference Shares, par value U.S.$0.01 per share.

On or prior to the Closing Date, Sunset Real Estate Holdings ("SREH"), a wholly owned subsidiary of SLHT, is expected to acquire the Ordinary Shares of the Issuer. SLHT has informed the Issuer that it is a subsidiary of Sunset Financial Resources, Inc. ("SFR"), which is a Maryland real estate investment trust that is managed by Cohen Brothers Management, LLC, an Affiliate of the Collateral Advisor.

The Issuer Charter requires that at all times all of the Issuer's directors be independent from SFR and the Collateral Advisor. The directors of the Issuer may be removed and replaced by the owner of a majority of the Issuer's Ordinary Shares.

In addition, SREH will be required to have a manager independent from SLHT, SFH, SFR and the Collateral Advisor. However, such independent manager of SREH may be removed and replaced by SLHT.

It is proposed that the Issuer will be put into liquidation on the date that is one year and two days after the Stated Maturity of the Notes, subject to the approval and resolution of the holders of the Issuer's Ordinary Shares, unless the Issuer is 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, a special purpose vehicle formed solely for the purpose of co-issuing the Notes, was organized on July 10, 2006 under the laws of the State of Delaware with the state identification number 4187564 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, telephone number (302) 738-6680. The Co-Issuer has no prior operating experience. It will not have any assets (other than its U.S.$1,000 received in connection with the issuance of the undivided limited liability company

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interest owned by SREH) 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 Advisor, the Initial Purchaser, the Placement Agent 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, telephone number (345) 945-3727. The Administration 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.

Ownership of Ordinary Shares and LLC Interests

On or prior to the Closing Date, Sunset Real Estate Holdings ("SREH"), a wholly owned subsidiary of SLHT, is expected to acquire the Ordinary Shares of the Issuer. SLHT has informed the Issuer that it is a subsidiary of Sunset Financial Resources, Inc. ("SFR"), which is a Maryland real estate investment trust that is managed by Cohen Brothers Management, LLC, an Affiliate of the Collateral Advisor. The Issuer Charter requires that at all times all of the Issuer's directors be independent from SFR and the Collateral Advisor. The directors of the Issuer may be removed and replaced by the owner of a majority of the Issuer's Ordinary Shares. SREH will be required to have a manager independent from SLHT, SFH, SFR and the Collateral Advisor. However, such independent manager of SREH may be removed and replaced by SLHT. There are no measures in place to restrict SREH from taking any action that would constitute an abuse of control of the Co Issuers.

Purchase of the Preference Shares

SLHT is expected to hold all of the Preference Shares on the Closing Date. Various potential and actual conflicts of interest may arise from the overall investment activities

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of the Collateral Advisor and its affiliates and from the ownership of the Preference Shares by SLHT. In certain circumstances, the interests of the Issuer and/or the holders of the Notes with respect to matters as to which the Collateral Advisor is advising the Issuer may conflict with the interests of the Collateral Advisor or its affiliates. See "Risk Factors—Risk Factors Relating to Conflicts of Interest and Dependence on the Collateral Advisor—Conflicts of Interest Involving the Collateral Advisor." The Issuer acknowledges and each holder of the Securities by its acquisition of a Note or Preference Share will be deemed to acknowledge, that it has read "Risk Factors—Risk Factors Relating to Conflicts of Interest and Dependence on the Collateral Advisor—Conflicts of Interest Involving the Collateral Advisor" in this Offering Circular, describing the possible conflict of interest that may exist between the activities of the Collateral Advisor under the Collateral Advisory Agreement, the ownership of the Securities by the Collateral Advisor or its affiliates and the other business activities of the Collateral Advisor and its affiliates.

Transferability of Ordinary Shares and Limited Liability Company Interests

Pursuant to the Indenture, for so long as any Notes are outstanding, the Issuer shall not issue or permit the transfer of any ordinary shares of the Issuer to any Person other than SREH or a transferee which is a Special Purpose Purchaser to which the transfer of such shares has satisfied the Rating Condition and the Co-Issuer shall not issue or permit the transfer of any of its limited liability company interests to any Person other than SREH or a transferee which is a Special Purpose Purchaser as to which the transfer of such interests has satisfied the Rating Condition.

Capitalization and Indebtedness of the Co-Issuers

The capitalization of the Issuer after giving effect to the issuance of the Securities and the ordinary shares of the Issuer, but before deducting expenses of the offering of the Securities and organizational expenses of the Co-Issuers, and without giving effect to the Up Front Payment or the Issuer Up Front Payment, is expected to be as follows:

Class A-1A Notes	U.S.$	775,000,000
Class A-1B Notes	U.S.$	125,000,000
Class A-2 Notes	U.S.$	23,000,000
Class B Notes	U.S.$	18,700,000
Class C Notes	U.S.$	27,000,000
Class D Notes	U.S.$	11,000,000
Class E Notes	U.S.$	15,000,000
Total Debt	U.S.$	994,700,000
Ordinary Shares	U.S.$	250
Preference Shares*	U.S.$	4,000,000
Total Equity	U.S.$	4,000,250
Total Capitalization	U.S.$	998,700,250

* Represents the aggregate notional amount of the Preference Shares.

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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 250 ordinary shares, par value U.S.$1.00 per share and 4,000 Preference Shares, par value U.S.$0.01 per share.

The Issuer will not have any material assets other than the Collateral, the Class D Collateral and the Class E 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 SREH, 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. SREH will have a capital account of U.S.$1,000 in the Co-Issuer representing all of the capital of the Co-Issuer.

Business

Paragraph 3 of the Memorandum of Association of the Issuer 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 Deed of Covenant, the Fiscal Agency Agreement, the Notes, the Purchase Agreement, the Account Control Agreement, the Preference Share Paying Agency Agreement, the Collateral Advisory Agreement, the Collateral Administration Agreement, the Administration Agreement and any Hedge Agreement, (iv) the pledge of the Collateral as security for its obligations in respect of (*inter alia*) the Notes and (v) certain activities conducted in connection with the payment of amounts in respect of the Securities, the management of the Collateral and other incidental activities.

The Issuer has no employees and no subsidiaries. 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 SECURED NOTES

General

The Collateral securing the Secured Notes (together with the Issuer's obligations to any Hedge Counterparty under a Hedge Agreement, to the Collateral Advisor under the Collateral Advisory Agreement and to the Trustee under the Indenture) 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 Reserve Account, the Quarterly Interest Reserve Account, the Semi-Annual Interest Reserve 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, the Issuer's rights in and to each Hedge Counterparty Collateral Account, (c) the rights of the Issuer under the Collateral Advisory Agreement, the Collateral Administration Agreement, the Administration Agreement and each 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, but excluding the Excepted Property (collectively, the "Collateral").

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

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 of not less than U.S.$900,000,000.

During the Ramp-Up Period, the Issuer will invest Uninvested Proceeds in Collateral Debt Securities in accordance with the Eligibility Criteria. See "—Ramp-Up Period" below.

During the Reinvestment Period, the Collateral Advisor will be required to use its best efforts:

(i) to direct the Issuer to reinvest CDS Sale Proceeds in Substitute Collateral Debt Securities, in accordance with the Eligibility Criteria and the Replacement Criteria; and

(ii) to direct the Issuer to reinvest Collateral Principal Payments in Substitute Collateral Debt Securities, in accordance with the Eligibility Criteria and the Reinvestment Criteria.

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The Collateral Advisor will not be permitted to reinvest CDS Sale Proceeds in any Substitute Collateral Debt Security during any 12 month period if CDS Sale Proceeds in an amount equal to the Sale Proceeds Reinvestment Limit have been previously reinvested during such 12 month period.

The Issuer will not reinvest CDS Sale Proceeds and Collateral Principal Payments and will distribute such amounts as Principal Proceeds if the Cash Release Conditions are satisfied.

See "—Reinvestment Period" and "—Disposition of Collateral Debt Securities" below.

The Trustee will make available upon request by an investor or prospective investor in the Securities a list of the Collateral Debt Securities owned by the Issuer.

Ramp-Up Period

During the Ramp-Up Period, the Issuer will use 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 all Principal Proceeds received on or after the Closing Date, will have an Aggregate Principal Balance equal to at least U.S.$1,000,000,000 on the Ramp-Up Completion Date.

The Issuer will notify (such notification, a "Ramp-Up Notice") the Trustee, the Fiscal Agent, each Rating Agency and each Hedge Counterparty in writing of the occurrence of the Ramp-Up Completion Date within seven Business Days after the Ramp-Up Completion Date occurs. Following the Ramp-Up Completion Date, the Issuer will request in writing that each Rating Agency confirm in writing to the Issuer that it has not reduced or withdrawn the rating assigned by it on the Closing Date to any Class of Notes (such confirmation, a "Rating Confirmation"). 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 and on each Distribution Date thereafter, the Issuer will be required to apply Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities), and then Interest Proceeds remaining after payment of interest on the Secured Notes and Principal Proceeds, to pay principal of the Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation.

Reinvestment Period

Reinvestment of Sale Proceeds

Until the end of the Reinvestment Period and so long as the Cash Release Conditions are not satisfied and the Class A/B/C Overcollateralization Test is satisfied on the date on which the Issuer commits to purchase the applicable Substitute Collateral Debt Security, CDS Sale Proceeds will be required (on a best efforts basis) to be reinvested by the Issuer (at the direction of the Collateral Advisor), in each case not later than 60 calendar days following

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receipt of such Sale Proceeds, in Substitute Collateral Debt Securities with an aggregate purchase price up to the amount of the Sale Proceeds from such sale, subject, during the Ramp-Up Period and thereafter during the Reinvestment Period, to the Issuer complying with the Eligibility Criteria and the Replacement Criteria described under "—Eligibility Criteria" below. However, the Issuer will not reinvest any CDS Sale Proceeds and will distribute such amounts as Principal Proceeds or Interest Proceeds, as applicable, if the Cash Release Conditions are satisfied. Any such Sale Proceeds shall be temporarily reinvested in the Eligible Investments pending such reinvestment in Substitute Collateral Debt Securities and, to the extent that, after the application of other Principal Proceeds, any amount remains to be paid pursuant to clauses (1), (2), (5) and (8) of the Principal Proceeds Waterfall, will be applied to make payments in accordance with the Priority of Payments. The cumulative amount of CDS Sale Proceeds reinvested in Substitute Collateral Debt Securities during the Ramp-Up Period and the Reinvestment Period during any 12 month period may not exceed the Sale Proceeds Reinvestment Limit. No reinvestment in Substitute Collateral Debt Securities may be made unless (i) any such acquisition is not for the primary purpose of recognizing gains or decreasing losses resulting from market value changes, and (ii) neither the Issuer nor the Collateral Advisor believes that any such acquisition will result, and no such acquisition does result, in a reduction or withdrawal of the then-current rating on any Class of Notes by any Rating Agency. Notwithstanding the foregoing, no Substitute Collateral Debt Securities may be acquired by or on behalf of the Issuer with Sales Proceeds received in the manner specified above at any time during which a Note Downgrade Event has occurred and is continuing. Such Sale Proceeds will be eligible to be reinvested in Substitute Collateral Debt Securities by the Issuer and pledged to the Trustee only if such Substitute Collateral Debt Securities meet the Replacement Criteria described below.

If CDS Sale Proceeds are not reinvested in Substitute Collateral Debt Securities as described above for any reason within 60 calendar days following receipt of such CDS Sale Proceeds, such CDS Sale Proceeds will be distributed in accordance with the Priority of Payments on the next succeeding Distribution Date. See "Description of the Notes—Priority of Payments."

Reinvestment of Collateral Principal Payments

Until the end of the Reinvestment Period and so long as the Class A/B/C Overcollateralization Test is satisfied on the date on which the Issuer commits to purchase the applicable Substitute Collateral Debt Security, the Issuer (at the direction of the Collateral Advisor) will be required to use its best efforts to reinvest Collateral Principal Payments, not later than 60 calendar days following receipt of such Collateral Principal Payments, in Substitute Collateral Debt Securities in accordance with the Eligibility Criteria and the Reinvestment Criteria. However, the Issuer will not be required to invest any Collateral Principal Payments and will distribute such amounts as Principal Proceeds if the Cash Release Conditions are satisfied. Collateral Principal Payments from Substitute Collateral Debt Securities (which are Available Reinvestment Funds) also may be invested further in Substitute Collateral Debt Securities, subject to the same restrictions described herein and to additional restrictions set forth in the Indenture. A reinvestment of any Collateral Principal Payment in any Substitute Collateral Debt Security is only permitted to occur on any date if (i) any such acquisition is not for the primary purpose of recognizing gains or decreasing losses resulting from market value changes an (ii) neither the Issuer nor the Collateral Advisor believes that any such acquisition will result,

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and no such acquisition does result, in a reduction or withdrawal of the then-current rating on any Class of Notes by any Rating Agency.

If any Collateral Principal Payments are not reinvested in Substitute Collateral Debt Securities as described above for any reason within 60 calendar days following receipt of such Collateral Principal Payments, then such Collateral Principal Payments will be distributed in accordance with the Priority of Payments on the next succeeding Distribution Date. See "Description of the Notes—Priority of Payments."

Eligibility Criteria

Immediately after giving effect to each binding commitment by the Issuer (a) during the Ramp-Up Period to invest Uninvested Proceeds in a Collateral Debt Security or (b) during the Reinvestment Period to invest Available Reinvestment Funds in a Substitute Collateral Debt Security (and, in each case, after giving effect to any other investments in, or sales of, Collateral Debt Securities that 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 10.0% and 25.0%, 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;
Fixed principal amount	(4) other than any Interest-Only 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 and a Standard & Poor's Rating, (B) has a public rating from at least one of Moody's or Standard & Poor's, and the lower of the public ratings of such security by each such rating agency (if publicly rated by such rating agency) is at least

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"Baa2" or "BBB," as applicable; *provided* that not more than 15.0% of the Net Outstanding Portfolio Collateral Balance (by Aggregate Principal Balance) may consist of Pledged Collateral Debt Securities the lower of the public ratings of which by any such rating agency is below "A3" or "A-," as applicable; *provided further* that such security has a Moody's Rating of at least "Baa3" and (C) 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; *provided* that an interest in a trust treated as a grantor trust for U.S. Federal income tax purposes will not be treated as being in Registered form unless each of the obligations or securities held by such trust was issued after July 18, 1984;

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) should the Issuer not be treated as a Qualified REIT Subsidiary for U.S. Federal income tax purposes, 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;

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;

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No Defaulted Securities, Credit Risk Securities, Equity Securities or Written Down Securities	(11) such security is not a Defaulted Security, a Credit Risk Security, an Equity Security or a Written Down Security;
Purchase price	(12) the purchase price of such security (expressed as a percentage) is not less than (A) 75.0% *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;
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;
Fixed Rate Securities	(19) if such security is a Fixed Rate Security (including a Hybrid Security at any time before the applicable Reset Date) or a Deemed Fixed Rate Security, (i) the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 24.0% of the Net Outstanding Portfolio Collateral Balance and (ii) the Aggregate

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Principal Balance of all such Pledged Collateral Debt Securities is not less than 20.0% of the Net Outstanding Portfolio Collateral Balance;

Pure Private Collateral Debt Securities

(20) if such security is a Pure Private Collateral Debt Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance;

Single Servicer

(21) 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 and (2) "SQ1" or has a credit rating of "Aa3" or higher by Moody's, the Aggregate Principal Balance of all Pledged Collateral Debt Securities serviced by such Servicer does not exceed 25.0% 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 and (y) "SQ2" or higher or has a credit rating of "A3" or higher by Moody's 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 does not exceed 15.0% of the Net Outstanding Portfolio Collateral Balance; or

(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 does not exceed 7.5% of the Net Outstanding Portfolio Collateral Balance;

Frequency of Interest Payments

(22) (A) such security provides for periodic payments of interest in cash not less frequently than semi-annually; (B) after giving effect to acquisition of such security, the Aggregate Principal Balance of all Pledged Collateral Debt Securities that provide for periodic payments of interest less frequently than monthly does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance; and (C) 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 does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance;

Step-Down Bonds

(23) if such security is a Step-Down Bond, the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Step-Down Bonds does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance;

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Collateral Quality Tests; Class A/B/C Over-collateralization Test	(24) after the Ramp-Up Completion Date, each of the applicable Collateral Quality Tests, the Class A/B/C Overcollateralization Test and the Standard & Poor's CDO Monitor Test is satisfied or, if immediately prior to such acquisition one or more of such Collateral Quality Tests, the Class A/B/C Overcollateralization Test or the Standard & Poor's CDO Monitor Test was not satisfied, the extent of compliance with any such Collateral Quality Test, the Class A/B/C Overcollateralization Test or the Standard & Poor's CDO Monitor Test which was not satisfied is maintained or improved by such acquisition;
Limitation on Stated Maturity	(25) unless such security is an Interest-Only Security, such security does not have a Stated Maturity that occurs later than the Stated Maturity of the Notes, *provided* 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 (i) the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance and (ii) the Average Life of such Pledged Collateral Debt Security is shorter than the period from the date of purchase of such security to the Stated Maturity of the Notes; *provided further* that the Issuer may acquire a Collateral Debt Security, having a Stated Maturity later than five years but not later than ten years after the Stated Maturity of the Notes so long as (i) the Aggregate Principal Balance of all such Pledged Collateral Debt Securities (including those described in the immediately preceding proviso) does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance and (ii) the Average Life of such Pledged Collateral Debt Security is shorter than the period from the date of purchase of such security to the Stated Maturity of the Notes;
No PIK Bonds	(26) such security is not a PIK Bond;
Deemed Floating Rate Securities; Deemed Fixed Rate Securities	(27) 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 10.0% of the Net Outstanding Portfolio Collateral Balance;
Floating Rate Securities	(28) if such security is a Floating Rate Security (including a Hybrid Security at any time after the applicable Reset Date) or a Deemed Floating Rate Security, (i) the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 80.0% of the Net Outstanding Portfolio Collateral Balance and (ii) such Security is not an Inverse Floating Rate Security or a Non-LIBOR Floating Rate Collateral Debt Security;

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Single Issuer Concentration

(29) 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 Collateral Balance; *provided* that there may be up to five issuers of Pledged Collateral Debt Securities having an Aggregate Principal Balance for each such issuer, of greater than 1.0% but less than or equal to 1.5% of the Net Outstanding Portfolio Collateral Balance;

Market Value Changes

(30) (a) such security is not acquired for the primary purpose of recognizing gains or decreasing losses resulting from market value changes, and (b) the acquisition of such asset will not result in the downgrade of the then-current ratings assigned by the Rating Agencies to the Issuer's outstanding Notes;

Interest-Only Securities

(31) if such security is an Interest-Only Security, the Aggregate Amortized Cost of all such Collateral Debt Securities does not exceed 3.0% of the Net Outstanding Portfolio Collateral Balance; *provided* that if such Interest-Only Security is acquired after the Ramp-Up Completion Date, (i) the Rating Condition with respect to Standard & Poor's has been satisfied with respect to such acquisition, (ii) only CDS Sale Interest Proceeds are used to acquire such Interest-Only Security and (iii) the Net Outstanding Portfolio Collateral Balance is equal to or greater than the Aggregate Outstanding Amount of the Notes;

Specified Type

(32) such security is a CMBS Conduit Security, CMBS Credit Tenant Lease Security, CMBS Large Loan Security, CMBS Single Property Security, Home Equity Loan Security, Residential A Mortgage Security or Residential B/C Mortgage Security;

Replacement Criteria

(33) if such Collateral Debt Security was purchased with Sale Proceeds, the Replacement Criteria are satisfied with respect to the purchase of such Collateral Debt Security;

Reinvestment Criteria

(34) if such Collateral Debt Security was purchased with Collateral Principal Payments, the Reinvestment Criteria are satisfied with respect to the purchase of such Collateral Debt Security; and

Eligible Asset

(35) such security is a financial asset that by its terms converts into cash within a finite period of time and includes any rights or other asset designed to assure the servicing or timely distribution of proceeds to such security's holders.

Negative Amortization Securities

(36) if such security is a Negative Amortization Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 15.0% of the Net Outstanding Portfolio Collateral Balance;

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The following criteria constitute the "Replacement Criteria":

(i) The price of the Substitute Collateral Debt Security must be between 90% and 110% of the original issue price of such Substitute Collateral Debt Security (as determined by the Collateral Advisor), as adjusted to reflect the accretion of any original issue discount or the amortization of any original issue premium calculated on a yield-to-maturity basis;

(ii) CDS Sale Proceeds in an amount equal to the Sale Proceeds Reinvestment Limit have not been previously reinvested during the applicable 12 month period; and

(iii) Either (A) a Note Downgrade Event has not occurred or (B) if a Note Downgrade Event has occurred, such Note Downgrade Event is no longer continuing.

The following criteria constitute the "Reinvestment Criteria":

(i) The price of the Substitute Collateral Debt Security must be between 90% and 110% of the original issue price of such Substitute Collateral Debt Security (as determined by the Collateral Advisor), as adjusted to reflect the accretion of any original issue discount or the amortization of any original issue premium calculated on a yield-to-maturity basis; and

(ii) Either (A) a Note Downgrade Event has not occurred or (B) if a Note Downgrade Event has occurred, such Note Downgrade Event is no longer continuing.

In addition, the Collateral Advisor will not be permitted to reinvest CDS Sale Proceeds in any Substitute Collateral Debt Security during any 12 month period if CDS Sale Proceeds in an amount equal to the Sale Proceeds Reinvestment Limit have been previously reinvested during such 12 month period.

Furthermore, in connection with the purchase of any Collateral Debt Security or Substitute Collateral Debt Security during the Ramp-Up Period or the Reinvestment Period, the Collateral Advisor will be required to comply with certain tax-related guidelines set forth in the Collateral Advisory Agreement. The Collateral Advisor shall determine that a security satisfies the Eligibility Criteria on the date that the Issuer enters into a binding commitment to acquire such security. In the case of a binding commitment made after the Closing Date, if the Issuer has made a binding 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 binding commitment to acquire such security and (B) the Eligibility Criteria were satisfied immediately after the Issuer made such binding commitment.

With respect to paragraphs (2), (5), (19) through (25), (27) through (29), (31) and (36) of the Eligibility Criteria, if at any time during the Reinvestment Period 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.

Notwithstanding the foregoing provisions, if an Event of Default shall have occurred and be continuing, no Collateral Debt Security may be acquired by the Issuer unless it

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was the subject of a binding commitment entered into by the Issuer prior to the occurrence of such Event of Default for a trade which has not settled.

After the Reinvestment Period ends, no Collateral Debt Security may be acquired by the Issuer unless it was the subject of a binding commitment entered into by the Issuer prior to the end of the Reinvestment Period for a trade which has not yet settled.

The Issuer may not acquire any Collateral Debt Security from the Collateral Advisor, its Affiliates, or their respective clients, unless such acquisition is made 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. Acquisitions or dispositions of Collateral Debt Securities in the manner specified in "—Dispositions of Collateral Debt Securities" will be deemed to have met these standards.

Asset-Backed Securities

General

The Collateral Debt Securities will consist of CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities, CMBS Single Property Securities, Home Equity Loan Securities, Residential A Mortgage Securities and Residential B/C Mortgage Securities.

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.

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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 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.

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. 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

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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 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-

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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 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

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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.

RMBS

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 (collectively, "RMBS"), The collateral underlying RMBS generally consists of a large, diversified pool of residential mortgage loans secured by one- to four- family residential properties. The 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 the Issuer on such RMBS. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors. Most of the RMBS which the Issuer may

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purchase are subject to such available funds caps or other caps on the interest rate payable to holders of such securities. The effect of such caps is to reduce the rate at which interest is paid to the holders of such securities (including the Issuer), which would have an adverse effect on the Issuer's ability to pay interest on the Notes and to make distributions on the Preference Shares.

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 often are 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 the return of interest and principal may be assessed as a credit matter. However, securityholders do not have the legal status of secured creditors, and cannot 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.

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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 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 mortgage loans. See "Risk Factors—Residential Mortgage-Backed Securities." Purchasers of high-cost loans could be liable for all claims and subject to all defenses that the borrower could assert against the originator of the mortgage loan.

CMBS

A substantial portion of the Collateral Debt Securities are expected to consist of CMBS. The collateral underlying CMBS generally consists of mortgage loans secured by income producing property, such as multi-family housing or commercial property. In general, incremental risks of delinquency, foreclosure and loss with respect to an underlying commercial mortgage loan pool may be greater than those associated with residential mortgage loan pools. In part, this is caused by lack of diversity.

RMBS are typically backed by mortgage loan pools consisting of hundreds of mortgage loans and related mortgaged properties. Each residential mortgage loan represents a small percentage of the entire underlying collateral pool, the borrowers and mortgaged properties of which are geographically dispersed. Risk of delinquency, foreclosure and loss with respect to a residential mortgage loan pool can be analyzed statistically. By contrast, CMBS may be backed by an underlying mortgage pool of only a few mortgage loans. As a result, each commercial mortgage loan in the underlying mortgage pool represents a large percentage of the

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principal amount of CMBS backed by such underlying mortgage pool. A failure in performance of any one commercial mortgage loan in the underlying mortgage pool will have a much greater impact on the performance of the related CMBS. Credit risk relating to commercial mortgage-backed transactions is, as a result, property-specific. In this respect, commercial mortgage-backed transactions resemble traditional non-recourse secured loans. The collateral must be analyzed and transaction structured to address issues specific to an individual commercial property and its business.

Performance of a commercial mortgage loan depends primarily on the net income generated by the underlying mortgaged property. The market value of a commercial property similarly depends on its income-generating ability. As a result, income generation will affect both the likelihood of default and the severity of losses with respect to a commercial mortgage loan.

Successful management and operation of the related business (including property management decisions such as pricing, maintenance and capital improvements) will have a significant impact on performance of commercial mortgage loans. Issues such as tenant mix, success of tenant business, property location and condition, competition, taxes and other operational expenses, general economic conditions, governmental rules, regulations and fiscal policies, environmental issues and insurance coverage are among the factors that may impact both performance and market value.

Property specific issues with respect to the underlying mortgaged property, such as significant government regulation of a particular industry, reliance on franchise, management or operating agreements, transferability on purchase or foreclosure of related valuable assets such as liquor and other licenses and ease of conversion of a commercial property to an alternative use will impact both risk of loss and loss severity with respect to the underlying mortgage loan pool and the CMBS. See "Risk Factors—Commercial Mortgage-Backed 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, possibly as a result, the repayment or redemption of a portion of the Notes in accordance with the Priority of Payments. See "Security for the Secured Notes—Ramp-Up Period" and "Description of the Notes—Mandatory Redemption." In addition, on the date on which the Issuer enters into a binding commitment to purchase a Substitute Collateral Debt Security, the Issuer will be required to satisfy each of the Collateral Quality Tests, after giving effect to the purchase of such Substitute Collateral Debt Security, or if a Collateral Quality Test was not satisfied prior to such purchase, the extent of compliance with such Collateral Quality Test must be maintained or improved by such purchase. See "—Eligibility Criteria."

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The "Collateral Quality Tests" will consist of the Moody's Asset Correlation 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 and the Standard & Poor's Minimum Recovery Rate 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 Advisor, on behalf of the Issuer) shall be applicable for purposes of determining compliance with the Moody's Asset Correlation Test and the Moody's Maximum Rating Distribution Test as described below. The maximum Moody's Asset Correlation Factor required to satisfy the Moody's Asset Correlation Test (the "Designated Maximum Moody's Asset Correlation Factor ") and the maximum 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 Maximum Moody's Asset Correlation Factor**	**Designated Moody's Maximum Rating Distribution**
1	**20.5%**	**100**
2	**21.5%**	**95**
3	**22.5%**	**90**

Moody's Asset Correlation Test. The "Moody's Asset Correlation Test" will be satisfied on any Measurement Date on or after the Ramp-Up Completion Date if the Moody's Asset Correlation Factor on such Measurement Date (calculated based on a model that assumes 145 separate obligors) is equal to or less than the Designated Maximum Moody's Asset Correlation Factor for any of Ratings Matrix 1, 2, or 3 *provided* that the applicable Moody's Maximum Rating Distribution as of such Measurement Date is equal to or less than the Designated Moody's Maximum Rating Distribution for the same Ratings Matrix. The "Moody's Asset Correlation Factor" is a percentage determined in accordance with any of the one or more asset correlation methodologies provided from time to time to the Collateral Advisor and the Collateral Administrator by Moody's.

Moody's Maximum Rating Distribution Test. The "Moody's Maximum Rating Distribution Test" will be satisfied on any Measurement Date occurring on or after the Ramp-Up Completion Date if the Moody's Maximum Rating Distribution of the Collateral Debt Securities as of such Measurement Date is equal to or less than the Designated Moody's Maximum Rating Distribution for any of Ratings Matrix 1, 2, or 3; *provided* that the applicable Moody's Asset Correlation Factor on such Measurement Date is equal to or less than the Designated Maximum Moody's Asset Correlation Factor for the same Ratings Matrix.

The "Moody's Maximum Rating Distribution" on any such Measurement Date on or after the Ramp-Up Completion 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

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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,

> 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 for a period of 90 days from the acquisition of such Collateral Debt Security. After such 90 day period, if such Collateral Debt Security is not rated by Moody's and no other security or obligation of the issuer thereof or obligor thereon is rated by Moody's and the Issuer or the Collateral Advisor seeks to obtain an estimate of a Moody's Rating Factor, then the Moody's Rating Factor of such Collateral Debt Security will be deemed to be such estimate thereof as may be assigned by Moody's upon the request of the Issuer or the Collateral Advisor.

Moody's Minimum Weighted Average Recovery Rate Test. The "Moody's Minimum Weighted Average Recovery Rate Test" will be satisfied if, on any Measurement Date on or after the Ramp-Up Completion Date, the Moody's Weighted Average Recovery Rate as of such Measurement Date is greater than or equal to 42%.

Weighted Average Coupon Test. The "Weighted Average Coupon Test" means a test that is satisfied on any Measurement Date on or after the Ramp-Up Completion Date if (x) on the Ramp-Up Completion Date, the Weighted Average Coupon as of the Ramp-Up Completion Date is equal to or greater than 5.85% and (y) on any Measurement Date after the Ramp-Up Completion Date, the Weighted Average Coupon as of such Measurement Date is equal to or greater than 5.25%.

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Weighted Average Spread Test. The "Weighted Average Spread Test" will be satisfied if, on any Measurement Date on or after the Ramp-Up Completion Date, the Weighted Average Spread as of such Measurement Date is equal to or greater than 0.51%.

Weighted Average Life Test. The "Weighted Average Life Test" means a test satisfied if, on any Measurement Date on or after the Ramp-Up Completion Date, the Weighted Average Life as of such Measurement Date of all Pledged Collateral Debt Securities is equal to or less than the number of years set forth in the table below opposite the period in which such Measurement Date occurs:

As of any Measurement Date occurring during the period below:	**Weighted Average Life (in years)**
Ramp-Up Completion Date to and including the August 2007 Distribution Date	7.0
Thereafter to and including the August 2008 Distribution Date	6.0
Thereafter to and including the August 2009 Distribution Date	5.0
Thereafter	4.0

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, as calculated by the Collateral Advisor, 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 amounts of principal of such scheduled distributions *by* (ii) the sum of all successive scheduled distributions of principal on such Pledged Collateral Debt Security.

Standard & Poor's Minimum Recovery Rate Test. The "Standard & Poor's Minimum Recovery Rate Test" will be satisfied if, on any Measurement Date on or after the Ramp-Up Completion Date, the Standard & Poor's Recovery Rate as of such Measurement Date for each specified Class of Notes is equal to, or greater than, (a) with respect to the Class A-1A Notes, the Class A-1B Notes and the Class A-2 Notes, 48%; (b) with respect to the Class B Notes and Class C Notes, 55%, (c) with respect to the Class D Notes, 69% and (d) with respect to the Class E Notes, 75%.

Standard & Poor's CDO Monitor Test

The "Standard & Poor's CDO Monitor Test" is a test satisfied on any Measurement Date on or after the Ramp-Up Completion Date if after giving effect to the sale of a Collateral Debt Security or the purchase of a Collateral Debt Security (or both), as the case

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may be, on such Measurement Date each Class Loss Differential of the Proposed Portfolio is positive or if any Class Loss Differential of the Proposed Portfolio is negative prior to giving effect to such sale or purchase, the extent of compliance is improved after giving effect to the sale or purchase of a Collateral Debt Security.

The "Class Loss Differential" means with respect to any Class of Notes, at any time, the rate calculated by subtracting the Class Scenario Default Rate at such time from the Class Break-Even Loss Rate at such time.

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

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

The "Proposed Portfolio" means the portfolio (measured by Principal Balance) of Pledged Collateral Debt Securities and Specified Assets resulting from the sale, maturity or other disposition of a Collateral Debt Security or a proposed acquisition of a Collateral Debt Security, as the case may be.

The "Current Portfolio" means the portfolio (measured by Principal Balance) of Pledged Collateral Debt Securities and Specified Assets existing immediately prior to the sale, maturity or other disposition of a Collateral Debt Security or immediately prior to the acquisition of a Collateral Debt Security, as the case may be.

"Specified Assets" means, at any time, (a) Principal Proceeds, or Uninvested Proceeds held as cash and (b) Eligible Investments purchased with Principal Proceeds, or Uninvested Proceeds.

The "Standard & Poor's CDO Monitor" is the 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 Advisor 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 such model may be amended by Standard & Poor's from time to time.

The Standard & Poor's CDO Monitor calculates the cumulative default rate of a pool of Collateral Debt Securities consistent with a specified benchmark rating level based upon Standard & Poor's proprietary corporate debt default studies. In calculating the Class Scenario

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Default Rate, the Standard & Poor's CDO Monitor considers each obligor's most senior unsecured debt rating, the number of obligors in the portfolio, the obligor and industry concentration in the portfolio and the remaining weighted average maturity of the Collateral Debt Securities and calculates a cumulative default rate based on the statistical probability of distributions of defaults on the Collateral Debt Securities.

There can be no assurance that actual defaults of the Collateral Debt Securities or the timing of defaults will not exceed those assumed in the application of the Standard & Poor's CDO Monitor or that recovery rates with respect thereto will not differ from those assumed in the Standard & Poor's CDO Monitor Test. Standard & Poor's makes no representation that actual defaults will not exceed those determined by the Standard & Poor's CDO Monitor. 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.

Dispositions of Collateral Debt Securities

No disposition of a Collateral Debt Security will be effected by or on behalf of the Issuer (i) for the primary purpose of recognizing gains or decreasing losses resulting from market value changes or (ii) if such disposition would result, or if the Issuer or the Collateral Advisor believe that any such disposition would result, in the downgrade of any of the then-current ratings assigned by any Rating Agency to any of the Notes.

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. Subject to the Indenture, the Collateral Advisor may direct the Issuer to sell or otherwise dispose of any Defaulted Security, Written Down Security, Withholding Tax Security or Credit Risk Security as described below. In addition, the Collateral Advisor will be required to direct the Issuer to sell or otherwise dispose of any Collateral Debt Security that is an Equity Security 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).

(i) The Issuer may, at the direction of the Collateral Advisor, sell any Defaulted Security, Written Down Security or Withholding Tax Security at any time; *provided* that the Collateral Advisor (i) certifies that such Collateral Debt Security is a Defaulted Security, a Written Down Security or a Withholding Tax Security and (ii) declares within five Business Days following such Collateral Debt Security becoming a Defaulted Security, a Written Down Security or a Withholding Tax Security whether it has elected to direct the Issuer to sell or otherwise dispose of all or a specified portion of such Collateral Debt Security. If the Collateral Advisor (on behalf of the Issuer) elects to direct the Issuer to sell or otherwise dispose of any Defaulted Security, Written Down Security or Withholding Tax Security as described above, such Collateral Debt Security (or specified portion thereof) is required to be sold or otherwise disposed of within six months following such election. If the Collateral Advisor does not elect within such five Business Days to direct the Issuer to sell or otherwise dispose of any Defaulted Security, Written Down Security or Withholding Tax Security, such Collateral Debt Security may not be sold or otherwise disposed of and must remain part of the Collateral (unless such

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(x) Defaulted Security subsequently becomes a Written Down Security or Withholding Tax Security, (y) Written Down Security subsequently becomes a Defaulted Security or Withholding Tax Security or (z) Withholding Tax Security subsequently becomes a Defaulted Security or Written Down Security). Any decision by the Collateral Advisor to sell or not to sell any Collateral Debt Security within five Business Days of such Collateral Debt Security first becoming either a Defaulted Security or a Written Down Security or a Withholding Tax Security may not thereafter be changed by the Collateral Advisor or the Issuer for any reason (unless such (x) Defaulted Security subsequently becomes a Written Down Security or Withholding Tax Security, (y) Written Down Security subsequently becomes a Defaulted Security or Withholding Tax Security or (z) Withholding Tax Security subsequently becomes a Defaulted Security or Written Down Security).

(ii) The Issuer may, at the direction of the Collateral Advisor, sell any Credit Risk Security; *provided* that the Collateral Advisor (A) certifies a Credit Risk Event has occurred and (B) declares within five Business Days following the occurrence of any such Credit Risk Event that it has elected to direct the Issuer to sell or otherwise dispose of all or a portion of such Collateral Debt Security. If the Collateral Advisor elects to direct the Issuer to sell or otherwise dispose of any Credit Risk Security as described above, such Collateral Debt Security is required to be sold or otherwise disposed of as soon as reasonably practicable and in any event within 30 days following such election. If the Collateral Advisor does not elect within such five Business Days following any Credit Risk Event to direct the Issuer to sell or otherwise dispose of any Credit Risk Security, such Collateral Debt Security may not be sold or otherwise disposed of and must remain part of the Collateral, (unless such Collateral Debt Security subsequently becomes a Defaulted Security, Written Down Security or Withholding Tax Security) and the Collateral Advisor makes the certifications and declarations described above.

All Sale Proceeds of any Collateral Debt Securities sold by the Issuer as described above and not reinvested in Substitute Collateral Debt Securities as described under "—Reinvestment Period" above will be deposited in the Principal Collection Account or the Interest Collection Account, as the case may be, and applied on the Distribution Date immediately succeeding the end of the Due Period, or (in the case of Sale Proceeds which may, in accordance with the above limitations, be reinvested) the second Distribution Date succeeding the Due Period, in which they were received in accordance with the Priority of Payments.

CDS Sale Interest Proceeds may only be applied (or held for application within 60 days) to purchase, in the Collateral Advisor's discretion, Substitute Collateral Debt Securities in accordance with the Eligibility Criteria and the other requirements applicable to the reinvestment of CDS Sale Proceeds set forth under "—Reinvestment Period—Reinvestment of Sale Proceeds" if the Collateral Advisor certifies to the Trustee that, after taking into account such application (or reservation for future application) of CDS Sale Interest Proceeds, the Interest Proceeds for the applicable Due Period will be sufficient to pay, on the Distribution Date following the Due Period during which such investment is made (and on any Distribution Date after such funds are received by the Issuer and before such funds are applied), all accrued interest owed by the Issuer on the Notes and any other amounts required to be paid pursuant to clauses (1) through (15) of the Interest Proceeds Waterfall.

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The Collateral Advisor, on behalf of the Issuer, will use commercially reasonable efforts to sell each Defaulted Security, Equity Security and any other security or consideration in accordance with the procedures set forth in the Indenture. Pursuant to the Collateral Advisory Agreement, the Collateral Advisor will cause any purchase or sale of any Collateral Debt Security, Equity Security or Eligible Investment to be conducted on an arm's-length basis or, if made to or from the Collateral Advisor, its affiliates or their respective clients on a basis no less favorable, taken as a whole, than would be obtained in a similar transaction with an unaffiliated third party and are otherwise consistent with applicable law and the Collateral Advisory Agreement.

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 Advisor 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 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 Advisor, its Affiliates and any account for which the Collateral Advisor or an Affiliate of the Collateral Advisor acts as investment adviser (and for which the Collateral Advisor 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.

The Hedge Agreements

The Issuer will on the Closing Date, enter into an interest rate protection agreement (the "Initial Hedge Agreement"), which is expected to consist of one or more interest rate swaps pursuant to a 1992 ISDA Master Agreement with the Initial Hedge Counterparty. The Issuer may also enter into floating/floating interest rate (or timing) swaps with the Initial Hedge Counterparty on or after the Closing Date under the same ISDA Master Agreement. On or after the Closing Date, at the direction of the Collateral Advisor, the Issuer may enter into additional interest rate protection agreements consisting of fixed rate for floating rate interest swaps, floating/floating interest rate swaps (including timing swaps), basis swaps, interest rate caps or other forms of interest rate derivatives, with counterparties (each, a "Hedge Counterparty") in accordance with the Indenture. In addition, the Issuer expects to enter into several Deemed Floating Rate Hedge Agreements with the Initial Hedge Counterparty on or shortly after the Closing Date. After the Closing Date, at the direction of the Collateral Advisor, 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.

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Each of the Initial Hedge Agreement, any additional or replacement interest rate protection agreement, any Deemed Fixed Rate Hedge Agreement or any Deemed 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 satisfaction of the Rating Condition (unless such Hedge Agreement is a Form Approved Hedge Agreement).

The additional Hedge Agreements which the Issuer may enter into on or after the Closing Date may consist of one or more interest rate caps, basis swaps, day-count swaps and other interest rate swaps. Under an interest rate cap, the Issuer will pay one or more fixed amounts to the applicable Hedge Counterparty in exchange for the Hedge Counterparty agreeing to pay to the Issuer interest on a specific notional amount at a rate equal to the excess, if any, of LIBOR over a fixed rate set forth in the Hedge Agreement. Under a basis swap, the Issuer will mitigate the risk of mismatches between payments on Collateral Debt Securities that pay interest at a floating rate determined using maturities or indices that are different from those which are used to calculate the interest rate on the Notes. Under a day-count swap, the Issuer will mitigate the risk of mismatches between payments on Collateral Debt Securities that pay interest based on date-count conventions that are different from those which are used to calculate the interest rate on the Notes.

Subsequent to the Closing Date, the Initial Hedge Counterparty may be able to transfer all of its rights and obligations under the Initial Hedge Agreement without obtaining the consent of the Trustee, the Issuer or the holders of the Notes or the Preference Shares, if the conditions specified in the Initial Hedge Agreement are satisfied (including that such transfer satisfies the Rating Condition).

For so long as the Class A-1A Notes are the Controlling Class, the Issuer shall not enter into any Hedge Agreement after the Closing Date (unless such Hedge Agreement is a Form Approved Hedge Agreement) without the consent of Holders of at least 66⅔ of the Aggregate Outstanding Amount of the Notes of the Controlling Class.

The initial Hedge Counterparty (the "Initial Hedge Counterparty") will be MLCS, located at 4 World Financial Center, 18th Floor, New York, New York 10080. The Initial Hedge Agreement is expected to be a fixed/floating interest rate swap (the "Initial Interest Rate Swap"). The Initial Interest Rate Swap is intended to protect, in part, against increases in LIBOR payable on the Floating Rate Notes and to mitigate, in part, the Issuer's exposure to such interest rate risk. Pursuant to the Initial Interest Rate Swap, the Issuer will be obligated to make a payment to the Initial Hedge Counterparty at a fixed rate specified in the Initial Interest Rate Swap and the Initial Hedge Counterparty will be obligated to make a floating rate payment to the Issuer at the one-month London interbank offered rate, in each case based on the notional amount specified in the Initial Hedge Agreement. The notional amount is expected to be approximately U.S.$204,700,000 on the Closing Date and is scheduled to decline to approximately U.S.$55,000,000 in August 2017, the scheduled termination date of the Initial Hedge Agreement. The Initial Hedge Agreement will provide for (a) payment on the Closing Date by the Initial Hedge Counterparty to the Issuer under the Initial Hedge Agreement of an up front payment of $3,900,000 (the "Up Front Payment") and (b) payment on the Closing Date by the Issuer to the Initial Hedge Counterparty under Deemed Floating Rate Hedge Agreements entered into on the

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Closing Date of an up front payment, in the aggregate, of $949,000 (the "Issuer Up Front Payment"). Any fixed rate payments to be made by the Issuer to the Initial Hedge Counterparty under the Initial Hedge Agreement will include the repayment by the Issuer of the 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.

If the Issuer enters into floating/floating interest rate (or timing) swaps with the Initial Hedge Counterparty, the purpose of such swaps will be to mitigate in part the basis risk to the Issuer resulting from timing mis-matches between the Floating Rate Securities paying interest based on the London interbank offered rate set at different times (and for different periods) throughout an interest accrual period and the Notes which pay interest based on LIBOR set on LIBOR Determination Dates for one month. Only a single net payment will be made on each date on which payments are due under the initial Hedge Agreement. If the payment owed by the Initial Hedge Counterparty to the Issuer pursuant to the Initial Interest Rate Swap (and any floating/floating interest rate swap) is greater than the payment owed by the Issuer pursuant to such swap(s), then the Initial Hedge Counterparty will pay the difference to the Issuer. If the payment owed by the Issuer to the Initial Hedge Counterparty pursuant to the Initial Interest Rate Swap (and any floating/floating interest rate swap) exceeds the payment owed by the Initial Hedge Counterparty pursuant to such swap(s), 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 Issuer expects to enter into Deemed Floating Rate Hedge Agreements on or shortly after the Closing Date with the Initial Hedge Counterparty and thereafter may enter into Deemed Fixed/Floating Rate Hedge Agreements with the Initial Hedge Counterparty and other Hedge Counterparties so long as the aggregate Notional Amount does not exceed 10% of the Net Outstanding Portfolio Collateral Balance. Under a Deemed Floating Rate Hedge Agreement, the Issuer will agree to pay the fixed rate of interest which it expects to receive under the Related Security and the Hedge Counterparty will agree to pay interest based on the London interbank offered rate, in each case based on notional amounts which decline over time based on the expected amortization schedule of the Related Security. A Deemed Fixed Rate Hedge Agreement is similar except that the Related Security is a Floating Rate Security. The Issuer is exposed to the risk that the Related Security may amortize more quickly than the scheduled reduction in the notional amount of the Deemed Fixed/Floating Rate Hedge Agreement, in which event the Issuer may be required to pay termination payments to the Hedge Counterparty in order to reduce the notional amount of the Hedge Agreement; alternatively, if the Related Security amortizes move slowly than the scheduled reduction in the notional amount of the Hedge Agreement, the Issuer may be under-hedged and have increased exposure to an increase in LIBOR, in the case of a Deemed Floating Rate Hedge Agreement. If the Issuer sells the Related Security or if it becomes a Defaulted Security, the Issuer will be required to terminate the

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Deemed Fixed/Floating Rate Hedge Agreement and make a termination payment to the Hedge Counterparty.

In respect of the Initial Hedge Counterparty, the Initial Hedge Agreement is expected to provide that:

(i) if a Collateralization Event occurs (which event shall be a "termination event" where the Hedge Counterparty will be the "affected party"), the Issuer may terminate such Hedge Agreement unless the Hedge Counterparty, within the time period specified in the Hedge Agreement, and solely at the expense of the Hedge Counterparty, has (A) entered into an agreement in the form of an ISDA Credit Support Annex (New York Law) (which must be satisfactory to the Issuer and satisfy the Rating Condition) and post sufficient collateral as required under the Hedge Agreement (except that if such Collateralization Event results from a reduction or withdrawal of a rating assigned to Moody's, the Hedge Counterparty will post collateral within the time period specified in the Hedge Agreement), (B) obtained, at its own expense, a substitute Hedge Counterparty acceptable to the Issuer that (1) satisfies the Hedge Counterparty Ratings Requirement, (2) is organized under the laws of any of the fifty states of the United States of America or the District of Columbia and (3) assumes the obligations of the Hedge Counterparty under the Hedge Agreement or replaces the outstanding transaction with a transaction on identical terms (in either case, through an assignment and assumption agreement or replacement agreement approved in writing by the Rating Agencies) or (C) obtained an absolute and unconditional guarantee of the obligations of the Hedge Counterparty under the Hedge Agreement from a guarantor that satisfies the Hedge Counterparty Ratings Requirement, which guarantee must satisfy the Rating Condition; and

(ii) if a Ratings Event occurs (which event shall be a "termination event" where the Hedge Counterparty will be the "affected party"), the Issuer may terminate such Hedge Agreement unless the Hedge Counterparty, within the time period specified in the Hedge Agreement, and solely at the expense of the Hedge Counterparty, has (i) obtained a substitute Hedge Counterparty that (1) satisfies the Hedge Counterparty Ratings Requirement and (2) assumes the obligations of the Hedge Counterparty under the Hedge Agreement or replaces the outstanding transaction with a transaction on identical terms (in either case, through an assignment and assumption agreement or replacement agreement approved in writing by the Rating Agencies) or (ii) entered into any other agreement with or arrangement for the benefit of the Issuer and the Trustee that is reasonably satisfactory to the Trustee and the Collateral Advisor on behalf of the Issuer and that satisfies the Rating Condition. If the Hedge Counterparty has not obtained a substitute counterparty or entered into such other agreement or arrangement as set forth above within the time period set forth in the Hedge Agreement, then the Hedge Counterparty will be required to immediately execute and deliver to the Issuer a ISDA Credit Support Annex (New York Law) (and which shall satisfy the Rating Condition) and post collateral pursuant to and in accordance with such Credit Support Annex (or, if the Hedge Counterparty shall have previously

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executed and delivered such Credit Support Annex, post such collateral as may be required thereunder).

Any Hedge Agreement may provide for different or alternative remedies than those described above following the occurrence of a Ratings Event or a Collateralization Event.

In the event that either a Collateralization Event or a Ratings Event occurs, and the applicable Hedge Counterparty fails to take one of the actions set forth above or set forth in the applicable Hedge Agreement, such failure shall constitute a "termination event" with respect to such Hedge Counterparty.

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.

The Hedge Agreements are also expected to be subject to termination by the Hedge Counterparty if an "event of default" or "termination event" 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, (b) any Auction Call Redemption, Optional Redemption or Tax Redemption or (c) an amendment of the Indenture by the Issuer in violation of the provisions set forth in the Hedge Agreement. 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 an Overcollateralization Test, then, subject to the satisfaction of the Rating Condition, the Hedge Agreement (other than any basis swap or Deemed Fixed/Floating Rate Hedge Agreement) will be subject to partial termination by the Hedge Counterparty on such Distribution Date with respect to a portion of the notional amount thereof.

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 that is a Form Approved Hedge Agreement or a replacement Hedge Agreement on such other terms satisfying the Rating Condition, and with a Hedge Counterparty with respect to which the Rating Condition shall have been satisfied. 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 (if such provision is applicable in such Hedge Agreement), the Issuer will agree in each Hedge

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Agreement not to exercise its right to terminate the Hedge Agreement unless no amount 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.

Amounts payable upon any termination or reduction of a Hedge Agreement are expected to 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, 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 (*provided* that the Issuer, or the Collateral Advisor on behalf of the Issuer, notifies Standard & Poor's and Moody's of such termination) 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; *provided* that (a) following such termination, the Issuer satisfies the Collateral Quality Tests, the Overcollateralization Tests and the Standard & Poor's CDO Monitor Test, (b) any termination payment payable to a Hedge Counterparty in connection with such a termination shall be payable, *first*, from the portion of the Sale Proceeds from the sale of the Related Security (if the Related Security was sold in connection with such termination) which consists of accrued interest on such security, *second*, from Interest Proceeds and, *third*, from Principal Proceeds and (c) the Issuer (or the Collateral Advisor on behalf of the Issuer) notifies Standard & Poor's and Moody's of such termination. Each Deemed Fixed/Floating Rate Hedge Agreement will be subject to the satisfaction of the Rating Condition (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 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

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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 one or more securities accounts in the name of the Trustee that will be designated the "Hedge Counterparty Collateral Account," which will be maintained for the benefit of the Secured Parties.

If any amount is payable by the Issuer to the Hedge Counterparty in connection with the occurrence of any partial termination or notional amount reduction of a Hedge Agreement, 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 the such Distribution Date to the extent funds are available for such purpose in accordance with the Priority of Payments, and any amount not so paid on such Distribution Date shall be payable on the first Distribution Date on which such amount may be paid in accordance with the Priority of Payments.

The obligations of the Issuer under the Hedge 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 on, and principal of, the Notes.

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 Advisor, the Trustee, the Initial Purchaser or the Placement Agent. Accordingly, notwithstanding anything to the contrary herein, none of the Co-Issuers, the Collateral Advisor, the Trustee, the Initial Purchaser or the Placement Agent assumes any responsibility for the accuracy, completeness or applicability of such information. The Initial Hedge Counterparty accepts responsibility for the accuracy of the information contained in the following paragraph.

MLCS is an Affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated. MLCS was incorporated in Delaware in 1984. The principal executive office of MLCS is 4 World Financial Center, 18th Floor, New York, New York 10080. MLCS acts as intermediary or principal in a variety of interest rate, currency and other derivative transactions. MLCS does not publish financial statements.

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The Accounts

On or prior to the Closing Date the Trustee will have established each of the following segregated trust accounts (the "Accounts"). Any investments of funds in the Accounts will be made in accordance with the direction of the Collateral Advisor 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 that such distributions or proceeds constitute Interest Proceeds (except as otherwise provided herein), 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 maintained under the Indenture by the Trustee (the "Interest Collection Account"), which may be a subaccount of the Custodial Account. All distributions or proceeds of the Collateral will be deposited, to the extent that they constitute Principal Proceeds, in the Principal Collection Account (the "Principal Collection Account" and, together with the Interest Collection Account, the "Collection Accounts"). The Collection Accounts shall be maintained for the benefit of the 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." Principal Proceeds that are Available Reinvestment Funds will be retained in the Principal Collection Account and applied at the direction of the Collateral Advisor to purchase Substitute Collateral Debt Securities and will not be distributed on any Distribution Date during the Reinvestment Period that is not a Redemption Date or an Accelerated Maturity Date, except to the extent that, (i) such funds cease to be Available Reinvestment Funds, (ii) after the distribution of other Principal Proceeds, any amount remains to be paid pursuant to clauses (1), (2), (5) and (8) of the Principal Proceeds Waterfall and (iii) the Cash Release Conditions are satisfied.

Amounts received in the Collection Accounts during a Due Period and amounts received in prior Due Periods and retained in the Collection Accounts under the circumstances set forth above in "Description of the Notes—Priority of Payments" will be invested in Eligible Investments (as described below) with stated maturities no later than the Business Day immediately preceding the next Distribution Date. All such proceeds will be retained in the Collection Accounts unless such proceeds are used as otherwise permitted under the Indenture. See "—Eligibility Criteria."

The Issuer may, but under no circumstances will be required to, deposit or cause to be deposited from time to time such cash in a Collection Account (in addition to any amount required hereunder to be deposited therein) as it deems, in its sole discretion, to be advisable and by notice to the Trustee may designate that such cash that is not proceeds of the Collateral is to be treated as Principal Proceeds or Interest Proceeds hereunder at its discretion.

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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 in the Collection Accounts during the related Due Period other than (i) Interest Proceeds or Principal Proceeds received after the end of the Due Period with respect to such Distribution Date and (ii) Available Reinvestment Funds, for payments to Noteholders and payments of fees and expenses and other amounts in accordance with the priority described under "Description of the Notes—Priority of Payments." The Principal Proceeds distributed on a Distribution Date shall include any Available Reinvestment Funds to the extent that (A) such funds cease to be Available Reinvestment Funds, (B) after the distribution of other Principal Proceeds, any amount remains to be paid pursuant to clauses (1), (2), (5) and (8) of the Principal Proceeds Waterfall, (C) the Cash Release Conditions are satisfied or (D) with respect to CDS Sale Proceeds, the amount of CDS Sale Proceeds which have previously been reinvested during any 12 month period together with the CDS Sale Proceeds already retained in the Collection Account exceeds the Sale Proceeds Reinvestment Limit.

Semi-Annual Interest Reserve Account

On any date upon which the Issuer receives an interest payment in cash in respect of a Semi-Annual Interest Paying Security, the Trustee will deposit into a single, segregated account established and maintained by the Trustee under the Indenture (the "Semi-Annual Interest Reserve Account") five-sixths of such interest payment. Commencing on the second Distribution Date after the Due Period in which an interest payment on a Semi-Annual Interest Paying Security was received, at least one Business Day prior to such Distribution Date and each of the four Distribution Dates thereafter, the Trustee shall transfer from the Semi-Annual Interest Reserve Account to the Payment Account, for application as Interest Proceeds on such Distribution Date, 20% of the original amount of such deposit into the Semi-Annual Interest Reserve Account (so that the entire amount of such deposit into the Semi-Annual Interest Reserve Account will have been transferred to the Payment Account by the sixth Distribution Date following the Due Period in which such deposit was made). Such transfers shall be the only permitted withdrawals (other than on the final Distribution Date, at which time all amounts in the Semi-Annual Interest Reserve Account will be withdrawn) from, or application of funds on deposit in, or otherwise standing to the credit of, the Semi-Annual Interest Reserve Account); *provided* that with respect to any Distribution Date on which the Issuer would otherwise have insufficient Interest Proceeds to pay the Interest Distribution Amount on all of the Notes in accordance with the Priority of Payments, the Collateral Advisor, in its sole discretion, may, prior to such Distribution Date, direct the Trustee to transfer from the Semi-Annual Interest Reserve Account and/or the Quarterly Interest Reserve Account to the Payment Account, for application as Interest Proceeds on such Distribution Date, an amount up to an amount sufficient (together with other Interest Proceeds available for such purpose) to pay the Interest Distribution Amount on all of the Notes in accordance with the Priority of Payments from Interest Proceeds.

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Quarterly Interest Reserve Account

On any date upon which the Issuer receives an interest payment in cash in respect of a Quarterly Interest Paying Security, the Trustee will deposit into a single, segregated account established and maintained by the Trustee under the Indenture (the "Quarterly Interest Reserve Account") two-thirds of such interest payment. Commencing on the second Distribution Date after the Due Period in which an interest payment on a Quarterly Interest Paying Security was received, at least one Business Day prior to such Distribution Date and the next Distribution Date thereafter, the Trustee shall transfer from the Quarterly Interest Reserve Account to the Payment Account, for application as Interest Proceeds on such Distribution Date, 50% of the original amount of such deposit into the Quarterly Interest Reserve Account (so that the entire amount of such deposit into the Quarterly Interest Reserve Account will have been transferred to the Payment Account by the third Distribution Date following the Due Period in which such deposit was made). Such transfers shall be the only permitted withdrawals (other than on the final Distribution Date, at which time all amounts in the Quarterly Interest Reserve Account will be withdrawn) from, or application of funds on deposit in, or otherwise standing to the credit of, the Quarterly Interest Reserve Account; *provided* that with respect to any Distribution Date on which the Issuer would otherwise have insufficient Interest Proceeds to pay the Interest Distribution Amount on all of the Notes in accordance with the Priority of Payments, the Collateral Advisor, in its sole discretion, may, prior to such Distribution Date, direct the Trustee to transfer to from the Semi-Annual Interest Reserve Account and/or the Quarterly Interest Reserve Account to the Payment Account, for application as Interest Proceeds on such Distribution Date, an amount up to an amount sufficient (together with other Interest Proceeds available for such purpose) to pay the Interest Distribution Amount on all of the Notes in accordance with the Priority of Payments from Interest Proceeds.

Uninvested Proceeds Account

On the Closing Date, 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. The Trustee shall invest all funds received into the Uninvested Proceeds Account during the Ramp-Up Period in Eligible Investments. All interest and other income from such investments shall be deposited in the Uninvested Proceeds Account, any gain realized from such investments will be credited to the Uninvested Proceeds Account, and any loss resulting from such investments will be charged to the Uninvested Proceeds Account.

If the Class A/B/C Overcollateralization Test is not satisfied on the Determination Date related to the first Distribution Date, Uninvested Proceeds (that are not required to complete purchases of Collateral Debt Securities) will be applied to the payment of principal of, *first*, the Class A-1A Notes, *second*, the Class A-1B Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes and, *fifth*, the Class C Notes until the Class A/B/C Overcollateralization Test is satisfied, prior to the application of Interest Proceeds or Principal Proceeds for such purpose.

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During the Ramp-Up Period, the Collateral Advisor on behalf of the Issuer may by notice to the Trustee direct the Trustee to, and upon receipt of such notice, the Trustee shall, apply cash in the Uninvested Proceeds Account to purchase Collateral Debt Securities. At least one Business Day prior to the first Distribution Date following the occurrence of either a Rating Confirmation Failure or a Rating Confirmation (or the first Distribution Date after the Closing Date if the Ramp-Up Completion Date is the same date as the Closing Date), the Trustee will transfer all remaining Uninvested Proceeds that are not required to complete purchases of Collateral Debt Securities to the Payment Account (or to satisfy the Class A/B/C Overcollateralization Test), to be treated, *first*, as Interest Proceeds, in an amount equal to the Interest Excess if there has been a Rating Confirmation (or if the Closing Date is the Ramp-Up Completion Date) and, *second*, as Principal Proceeds, and distributed in accordance with the Priority of Payments; *provided* that all 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. If the first Distribution Date occurs prior to a Rating Confirmation or Rating Confirmation Failure, an amount equal to the Interest Excess will be withdrawn from the Uninvested Proceeds Account and transferred to the Payment Account for application as Interest Proceeds in accordance with the Priority of Payments.

Expense Account

After payment of the organizational and structuring fees, and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Advisor, the Placement Agent and the Initial Purchaser) and the expenses of offering the Securities, on the Closing Date, at least U.S.$75,000 from the proceeds of the offering of the 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 limitations set forth in clause (2) under "Description of the Notes—Priority of Payments—Interest Proceeds," the Trustee will deposit into the Expense Account an amount from Interest Proceeds (and, to the extent that Interest Proceeds are insufficient, from Principal Proceeds) such that the amount on deposit in the Expense Account (after giving effect to such deposit) will equal U.S.$75,000. 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

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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 the Indenture pursuant thereto.

Reserve Account

On the Closing Date, approximately U.S.$900,000 will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the "Reserve Account") from the proceeds of the offering of the Preference Shares on the Closing Date. All funds on deposit in the Reserve Account will be invested in Eligible Investments at the direction of the Collateral Advisor. On the Business Day prior to each Distribution Date, the Trustee will transfer an amount in the Reserve Account to the Payment Account, for application as Interest Proceeds on such Distribution Date as directed by the Collateral Advisor. Any amount distributed from the Reserve Account on any Distribution Date will be applied to pay amounts due under the Interest Proceeds Waterfall in accordance with the priority set forth therein and, as a result, any such amount will be applied first to pay any other amounts payable under the Interest Proceeds Waterfall (which have not been paid from other Interest Proceeds) on such Distribution Date, before such funds are applied to make distributions on the Preference Shares.

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THE COLLATERAL ADVISORY AGREEMENT

The following summary describes certain provisions of the Collateral Advisory 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 Advisory Agreement.

General

The Collateral Advisor will perform certain investment advisory functions, including directing and supervising the investment by the Issuer in Collateral Debt Securities, during the period from the Closing Date to (and including) the last day of the Reinvestment Period, and Eligible Investments and will perform certain administrative functions on behalf of the Issuer in accordance with the applicable provisions of the Collateral Advisory Agreement. The Collateral Advisor 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

No advisory fee will be payable to the Collateral Advisor as compensation for rendering its services under the Collateral Advisory Agreement. However, if Strategos is replaced as the Collateral Advisor by an entity that is not an Affiliate of Strategos, the replacement Collateral Advisor will be entitled to receive the Advisory Fee, payable monthly, in arrears on each Distribution Date, in accordance with the Priority of Payments, in an amount equal to 0.03% per annum, of the Average Monthly Asset Amount for each Distribution Date. See "Description of the Notes—Priority of Payments."

To the extent not paid on any Distribution Date when due, the Advisory Fee will be deferred and will be payable on subsequent Distribution Dates in accordance with the Priority of Payments. The Collateral Advisor will have the right to elect to defer payment of its Advisory Fee on any Distribution Date. Any accrued but unpaid Advisory Fees that are deferred due to the operation of the Priority of Payments will not accrue interest. If the Collateral Advisor elects to defer payment of any Advisory Fee which otherwise would have been paid in accordance with the Priority of Payments, such deferred Advisory Fee ("Deferred Advisory Fee") will accrue interest for each Interest Period at a per annum rate of LIBOR (such accrued interest, "Deferred Advisory Fee Interest"). Notwithstanding the foregoing, the Collateral Advisor may not make such an election with respect to any Distribution Date if it has elected to defer such payments on the four consecutive Distribution Dates preceding such Distribution Date.

In addition to the fees set forth above, the Collateral Advisor will receive from the Issuer an upfront fee of U.S.$2,000,000 on the Closing Date.

In addition, Cohen Bros. & Company, LLC, an affiliate of the Collateral Advisor and an express third party beneficiary of the Collateral Advisory Agreement, will act as a Placement Agent for the Securities. See "Risk Factors—Risk Factors Relating to Conflicts of

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Interest and Dependence on the Collateral Advisor—Conflicts of Interest Involving the Collateral Advisor."

Removal, Resignation and Assignment

If the Collateral Advisory Agreement is terminated for any reason, or the entity then serving as Collateral Advisor resigns or is removed, the Advisory 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 Advisory Fee payable to a successor Collateral Advisor from payments on the Collateral may be greater than the Advisory Fee set for such purposes on the Closing Date (assuming, for this purpose, that the Collateral Advisor is not Strategos or an Affiliate thereof) without the prior written consent of a Majority-in-Interest of Preference Shareholders and a Majority of the Noteholders (voting as a single Class) and satisfaction of the Rating Condition.

The Collateral Advisor 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 Advisor resigns, the Issuer agrees to use its commercially reasonable efforts to appoint a successor Collateral Advisor, and the effectiveness of such resignation will be conditioned upon the appointment of such successor in the manner specified below.

The Collateral Advisor may not be removed without cause.

The Collateral Advisor may be removed for cause by the Issuer or the Trustee, at the direction of holders of at least 66⅔% of the Aggregate Outstanding Amount of the Notes of the Controlling Class (excluding, in each case, any Collateral Advisor Securities), upon 20 days' prior written notice to the Collateral Advisor.

For purposes of determining "cause" with respect to any such termination of the Collateral Advisory Agreement, such term shall mean the occurrence and continuation of any one of the following events:

(1) the Collateral Advisor willfully and in bad faith violates, or takes any action that it knows breaches, any provision of the Collateral Advisory Agreement or the Indenture applicable to it;

(2) the Collateral Advisor breaches in any material respect any provision of the Collateral Advisory 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 Advisor (or any of its directors or officers) pursuant to the Collateral Advisory 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 Advisor 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;

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(3) the Collateral Advisor 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 Advisor (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 Advisor or of any substantial part of its properties or assets in connection with any 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 Advisor 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 Advisor 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 Advisor of its duties under the Collateral Advisory Agreement or under the Indenture, which breach or default is not cured within any applicable cure period; or

(5) (i) the Collateral Advisor being indicted for criminal fraud or other criminal activity in the performance of its obligations under the Collateral Advisory Agreement or a final judicial determination of civil fraud having been made with respect to any act of the Collateral Advisor in the performance of such obligations or (ii) the Collateral Advisor or any of its executive officers primarily responsible for administration of the Collateral Debt Securities (in the performance of his or her investment advisory duties) being convicted of a criminal offense related to its primary business.

The Collateral Advisor shall promptly notify the Issuer, the Trustee, the Fiscal Agent, 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 Advisor, or termination of the Collateral Advisory 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 Advisor Securities) of an institution as successor Collateral Advisor that is not an Affiliate of the Collateral Advisor, *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

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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 Advisor under the Collateral Advisory Agreement, (2) is legally qualified and has the capacity to act as Collateral Advisor under the Collateral Advisory Agreement as successor to the Collateral Advisor, (3) has agreed in writing to assume all of the responsibilities, duties and obligations of the Collateral Advisor under the Collateral Advisory Agreement and under the applicable terms of the Indenture, (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 and (5) the appointment of such successor Collateral Advisor shall not cause, or be reasonably expected to cause, the Issuer to lose its status as a Qualified REIT Subsidiary (clauses (1) through (5), the "Replacement Advisor Conditions"); and (ii) satisfaction of the Rating Condition with respect to such appointment.

The Issuer, the Trustee and the successor Collateral Advisor shall take such action (or cause the outgoing Collateral Advisor to take such action) consistent with the Collateral Advisory Agreement and the terms of the Indenture applicable to the Collateral Advisor as shall be necessary to effectuate any such succession. If the Collateral Advisor shall resign or be removed but a successor Collateral Advisor shall not have assumed all of the Collateral Advisor's duties and obligations under the Collateral Advisory 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 Advisor.

In the event that the Collateral Advisor is terminated or resigns 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 or resignation notice, the Collateral Advisor 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 Advisor 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 Advisor appointed by the resigning or removed Collateral Advisor is disapproved, the resigning or removed Collateral Advisor, the Issuer or the holders of at least 25% of the Voting Percentage of 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 Advisor, 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 Advisor Securities will have no voting rights with respect to any vote (i) in connection with the removal of the Collateral Advisor or (ii) increasing the rights or decreasing the obligations of the Collateral Advisor, and will be deemed not to be outstanding in connection with any such vote; *provided, however*, that any such Collateral Advisor Securities will have voting rights and will be deemed outstanding with respect to all other matters as to which holders of Securities are entitled to vote.

The Collateral Advisory Agreement may not be assigned or delegated by the Collateral Advisor, 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 and (iii) satisfaction of the Rating Condition with respect to such assignment or delegation;

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provided, however, that the Collateral Advisor may assign any or all of its rights or delegate any or all of its obligations under the Collateral Advisory Agreement to an Affiliate of the Collateral Advisor without obtaining the consents specified in the preceding clauses (i) and (ii), if such Affiliate meets the Replacement Advisor Conditions, and if immediately after the assignment or delegation, such Affiliate employs principal personnel performing the duties under the Collateral Advisory Agreement who are the same individuals who would have performed such duties had the assignment or delegation not occurred.

The Collateral Advisory Agreement may not be assigned by the Issuer without the prior written consent of the Collateral Advisor and the prior written consent of or affirmative vote by a majority in Aggregate Outstanding Amount of the Notes 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 Advisory 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 Advisor such documents as the Collateral Advisor shall consider reasonably necessary to effect fully such assignment.

Amendment

The Collateral Advisory Agreement may not be amended, modified or waived without satisfaction of the Rating Condition with respect to Standard & Poor's.

Limitation of Liability

The Collateral Advisor, 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 Administrator, any Hedge Counterparty, the Trustee, the Fiscal Agent, the Collateral Administrator, the Preference Share Paying Agent, the holders of the Securities or any other person for any losses, claims, damages, demands, charges, judgments, assessments, costs or other liabilities incurred by the Co-Issuers, the Administrator, any Hedge Counterparty, the Trustee, the Preference Share Paying Agent, the Fiscal Agent, the holders of the Securities or any other Person that arise out of or in connection with the performance by the Collateral Advisor of its duties under the Collateral Advisory Agreement or the Indenture, or for any decrease in the value of the Collateral; *provided* that the Collateral Advisor shall be subject to liability: (i) by reason of acts or omissions of the Collateral Advisor constituting bad faith, willful misconduct or gross negligence in the performance, or reckless disregard, of the obligations of the Collateral Advisor under the Collateral Advisory Agreement and under the terms of the Indenture applicable to the Collateral Advisor; or (ii) with respect to any representation or warranty made by the Collateral Advisor regarding the information concerning the Collateral Advisor and its investment management methodology, personnel and trading record included in this Offering Circular which information is contained solely under the section entitled "Collateral Advisor," 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

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described in either of clause (i) or (ii), a "Collateral Advisor Breach"); *provided further* that in no event shall the Collateral Advisor or any of its Affiliates be liable for consequential, special, exemplary or punitive damages. Any stated limitations on liability shall not relieve the Collateral Advisor from any responsibility it has under any state or Federal statutes.

Conflicts of Interest

Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Advisor 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 Advisor is advising the Issuer may conflict with the interests of the Collateral Advisor or its Affiliates. See " Risk Factors—Risk Factors Relating to Conflicts of Interest and Dependence on the Collateral Advisor—Conflicts of Interest Involving the Collateral Advisor."

Standard of Care

The Collateral Advisor in performing its obligations under the Collateral Advisory 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 Advisor exercises with respect to comparable assets that it manages for itself and (ii) without limiting the foregoing, in a commercially reasonable manner consistent with 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 Advisor and its Affiliates (each, an "Indemnified Party") from and against any and all losses, claims, damages, demands, charges, 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 Securities, the transactions contemplated by this Offering Circular, the Indenture or the Collateral Advisory Agreement, and/or any action taken by, or any failure to act by, the Collateral Advisor or any of its Affiliates; *provided* that the Collateral Advisor and its Affiliates will not be indemnified for any such losses, claims, damages, demands, charges, 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 Advisor Breach. Any such indemnification by the Issuer will be paid subject to, and in accordance with, the Priority of Payments.

The Collateral Advisor 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

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any pending or threatened litigation, to the extent caused by, or arising out of any acts or omissions of the Collateral Advisor or any of its Affiliates constituting a Collateral Advisor Breach. The Collateral Advisor 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 Advisor, which advice, recommendation or direction does not constitute a Collateral Advisor Breach and is not inconsistent with the Collateral Advisor's obligations under the Collateral Advisory Agreement. For the avoidance of doubt, the Initial Purchaser and the Placement Agent will be indemnified by the Issuer pursuant to the Purchase Agreement.

Investment Guidelines

Pursuant to the Collateral Advisory Agreement, the Collateral Advisor must comply with certain investment guidelines in connection with the acquisition of the Collateral Debt Securities. These investment guidelines are contained in the Collateral Advisory Agreement. In complying with these investment guidelines, the Issuer (or the Collateral Advisor on behalf of the Issuer) may rely on (i) advice from a 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, in either case to the effect that the Issuer will not (x) 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 (y) 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

"Strategos," "Kleros®" and "Kleros® Real Estate" are trademarks of Cohen Brothers, LLC which it has licensed to the Issuer to use solely for the limited purposes and limited duration set forth in the Collateral Advisory Agreement.

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COLLATERAL ADVISOR

The information appearing below under the subheadings "Strategos Capital Management, LLC" and "Key Personnel" has been prepared by the Collateral Advisor and has not been independently verified by the Co-Issuers, the Initial Purchaser, the Placement Agent, the Trustee or any other person. Accordingly, the Collateral Advisor assumes the responsibility for the accuracy, completeness or applicability of such information appearing under such subheading.

Strategos Capital Management, LLC

Strategos Capital Management, LLC (the "Collateral Advisor") is a Delaware limited liability company formed on July 7, 2004. The Collateral Advisor is a registered investment adviser regulated by the SEC. It is an Affiliate of Cohen Brothers, LLC, which is a holding company for Cohen Bros. & Company, LLC, a broker-dealer that focuses on the financial services sector, and which is also the Placement Agent. The Collateral Advisor is the collateral manager or the collateral advisor for Kleros Preferred Funding, Ltd., Kleros Preferred Funding II, Ltd., Libertas Preferred Funding I, Ltd. and Kleros Real Estate CDO I, Ltd (the "Strategos Managed CDOs"). The Collateral Advisor is also an affiliate of Cohen Bros. Financial Management, LLC (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., Alesco Preferred Funding VII, Ltd., Alesco Preferred Funding VIII, Ltd., Alesco Preferred Funding IX, Ltd. and Alesco Preferred Funding X, Ltd. (collectively, the "Alesco CDOs")), of Emporia Capital Management, LLC (the collateral manager for Emporia Preferred Funding I, Ltd. and Emporia Preferred Funding II, Ltd. (collectively, the "Emporia CDOs")), and of Dekania Capital Management, LLC (the collateral manager for Dekania CDO I, Ltd., Dekania CDO II, Ltd. and Dekania Europe CDO I plc (collectively, the "Dekania CDOs")). The Strategos Managed CDOs are comprised primarily of residential mortgage-backed securities and, in certain cases, related synthetic securities. The Alesco CDOs are comprised of trust preferred securities issued by bank holding companies and insurance companies. The Emporia CDOs are comprised of loans, mezzanine obligations, structured finance obligations and synthetic securities. The Dekania CDOs are comprised of securities issued by insurance companies and include trust preferred securities, surplus notes, subordinated notes, and senior notes.

Cohen Bros. & Company, LLC is a research and trading firm 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. & Company, LLC research department reports on the stocks of a diverse pool of financial institutions throughout the United States. Cohen Bros. & Company, LLC has experience in the banking and insurance industries from both an evaluation and management perspective and is the publisher of the Encyclopedia of Bank Trust Preferred Securities and the Insurance Trust Preferred Securities and Surplus Notes Encyclopedia. From time to time, Cohen Bros. & Company, LLC has acted and may continue to act as broker for the Collateral Advisor to acquire the Collateral Debt Securities for the Issuer.

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In order for the Collateral Advisor to prepare the reports required by the Collateral Advisory Agreement, the Collateral Advisor will be required to analyze each Collateral Debt Security on a monthly basis.

The Collateral Advisor will use the services of the individuals described below under "—Key Personnel."

Management of SFR; Merger of SFR and Alesco

SFR entered into a definitive Agreement and Plan of Merger, dated as of April 27, 2006 (the "Merger Agreement") with Alesco Financial Trust ("Alesco"). Pursuant to the Merger Agreement, Alesco will merge with and into a wholly-owned merger subsidiary of SFR and the SFR merger subsidiary will be the surviving corporation in the merger. In the merger, all outstanding common shares of Alesco will be converted into the right to receive common stock of SFR at an agreed upon exchange ratio. It is currently expected that upon consummation of the merger, Alesco's former shareholders will own between approximately 58% and 65% of SFR's common stock. Alesco is a Maryland real estate investment trust that intends to qualify to be taxed as a REIT for federal income tax purposes for its taxable year ending at the time of the merger. In connection with the merger, SFR entered into the Interim Management Agreement with Cohen Brothers Management, LLC ("CB Management"), a wholly-owned subsidiary of Cohen Brothers, LLC, pursuant to which CB Management will manage SFR during the period between April 27, 2006 and the consummation of the merger. CB Management is also the manager of Alesco. Under the Interim Management Agreement, SFR will employ an investment strategy that is similar to the investment strategy employed by Alesco. For example, Alesco, through wholly-owned subsidiaries, owns all of the ordinary and preference shares issued by Kleros Real Estate CDO I, Ltd. which owns assets similar to those that will be owned by Kleros Real Estate CDO II, Ltd. Under the terms of the Interim Management Agreement, SFR pays CB Management a monthly base management fee equal to 1/12 of SFR's equity multiplied by 1.50%, subject to adjustment under the terms of the agreement.

If the merger is consummated, the Interim Management Agreement will be terminated and SFR expects to enter into a management agreement with CB Management that is similar to the existing management agreement between Alesco and CB Management, including having an initial term of three years.

If the merger agreement is terminated for any reason, SFR will have the right to (1) terminate the Interim Management Agreement on 30 days' prior notice, or (2) continue the Interim Management Agreement in effect for 90 days after termination of the Merger Agreement or enter into a new management agreement with CB Management during such 90 days that is substantially the same as the existing management agreement between Alesco and CB Management.

If the Merger Agreement and the Interim Management Agreement are both terminated, Alesco will have the right to purchase from SFR or any of its subsidiaries any asset, investment or right to acquire an asset or investment acquired pursuant to or in connection with the Interim Management Agreement at a price equal to the market value, as of the date of such repurchase and otherwise on substantially the terms acquired by SFR or such subsidiary, of such

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asset, investment or right to acquire asset or investment. This repurchase right will apply to any interests being acquired by SFR or its subsidiaries in Kleros Real Estate CDO II, Ltd.

Key Personnel

Daniel G. Cohen. Mr. Cohen has been Chairman of the Board of Directors of The Bancorp, Inc. (a bank holding company) Nasdaq: TBBK) since 2000, and served as Chief Executive officer for The Bancorp, Inc. from 1999 to 2000. From 2001 to 2006, Mr. Cohen served as Chairman and Chief Executive Officer of Cohen Brothers, LLC. Mr. Cohen is currently Chairman of Cohen Brothers, LLC. Mr. Cohen is Chairman and CEO of Taberna Realty Finance Trust, a REIT formed in 2005 and Chairman of Alesco Financial Trust, a REIT managed by an affiliate of Cohen Brothers, LLC. Mr. Cohen holds similar management positions in certain investment advisory subsidiaries and the broker-dealer subsidiary of Cohen Brothers, LLC. Since 2000, Mr. Cohen has served on the Board of Directors of TRM Corporation (Nasdaq: TRM), and as its chairman since 2003. From 1995 to 2000, Mr. Cohen served as an officer of Resource America (NASDAQ "REXI"), serving as its Chief Operating Officer from 1998 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 that grew to $3.5 billion in assets.

Christopher Ricciardi. In 2006, Mr. Ricciardi joined Cohen Brothers, LLC as its Chief Executive Officer. Mr. Ricciardi holds similar management positions at the broker-dealer subsidiary of Cohen Brothers, LLC. From 2003 to 2006, Mr. Ricciardi was a Managing Director and the Global Head of Structured Credit Products for Merrill Lynch, Pierce, Fenner & Smith Incorporated responsible for the origination, structuring, and marketing of all Collateralized Debt Obligations, Structured Funds and Exotic Credit Derivatives. Prior to joining Merrill Lynch, Pierce, Fenner & Smith Incorporated, from 2000 to 2003, Mr. Ricciardi was a Managing Director and the Head of U.S. Structured Credit Products at Credit Suisse First Boston. Mr. Ricciardi began his career at Prudential Securities as a trader of mortgage and asset backed securities. Mr. Ricciardi earned a B.A. from the University of Richmond and an MBA from the Wharton School at the University of Pennsylvania. Mr. Ricciardi is also a CFA charterholder.

James J. McEntee, III. Mr. McEntee is the Chief Operating Officer of Cohen Brothers, LLC, a position which he has held since 2003. Mr. McEntee holds similar management positions in certain investment advisory subsidiaries and the broker-dealer subsidiary of Cohen Brothers, LLC. Mr. McEntee is also the Chief Executive Officer of Alesco Financial Trust. Mr. McEntee also serves as a director of The Bancorp, Inc. Prior to joining Cohen Brothers, LLC, Mr. McEntee was the co-founder and co-managing partner of Harron Capital, LP, a $100 million private equity fund, from 1999 to 2002. Mr. McEntee held various positions as a lawyer in private practice with the law firm of Lamb, Windle & McErlane, P.C. from 1990 to 2003, including as a partner and chairman of the firm's Business Department.

Alex P. Cigolle, CFA. Mr. Cigolle serves as Chief Investment Officer of Strategos Capital Management, LLC. From 2000 to 2004, Mr. Cigolle served as Vice President of Delaware Investments in the Structured Products Group. At Delaware Investments, Mr. Cigolle directed the trading and structuring of collateralized debt obligations (CDOs). In addition, Mr. Cigolle was responsible for credit analysis of various structured products including

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ABS, MBS, and CDOs. Prior to that, Mr. Cigolle was employed with Banc of America Securities where he was a structurer in the Structured Credit Products Group. Mr. Cigolle is a graduate of the Massachusetts Institute of Technology where he earned a bachelor's degree in economics.

David Nathaniel. Mr. Nathaniel joined Cohen Brothers, LLC in January 2005. Mr. Nathaniel serves as Chief Operating Officer of Strategos Capital Management, LLC. Prior to joining Cohen Brothers, LLC, Mr. Nathaniel served as Chief Investment Officer of Mivtachim Pension Funds, the largest pension fund in Israel, from 2002 to 2005. Prior to that, Mr. Nathaniel managed a $500 million portfolio of real estate assets for Gmul Investments Ltd. Mr. Nathaniel received a BA in Economics from Hebrew University in 1990 and an MBA from Tel Aviv University in 1995.

Matthew C. Nannen. Mr. Nannen joined Strategos Capital Management, LLC in 2005 as the Director of Surveillance with responsibilities in ABS Structuring and Credit Analysis. Mr. Nannen also heads up the due diligence efforts of Strategos Capital Management, LLC when purchasing whole loan packages. Mr. Nannen previously worked for Delaware Investments for seven years as an Assistant Vice President in charge of CDO and Structured Products surveillance and administration. Mr. Nannen was also an Audit Manager in the Financial Services Industry of Ernst & Young LLP for six years. Mr. Nannen received a bachelor's degree from The Pennsylvania State University. Mr. Nannen is a Certified Public Accountant and Level II CFA candidate.

Nadia Khayat. Ms. Khayat is responsible for trading and analytics at Strategos Capital Management, LLC. Prior to joining Strategos Capital Management, LLC in 2004, Ms. Khayat worked for Cohen Bros. & Company, LLC as a trader from 2003. Ms. Khayat holds an undergraduate degree in Management and Economics from the University of Damascus and an MBA degree in Finance and MIS from Villanova University. Before coming to the United States Ms. Khayat worked for four years in Syria with Computec, a computer hardware distributor for the Middle East, in charge of purchasing and negotiation of their distribution and servicing contracts. Ms. Khayat is fluent in five languages.

Tyler Wynn. Mr. Wynn joined Strategos Capital Management, LLC in 2005 and is responsible for credit analysis and surveillance at Strategos Capital Management, LLC. Mr. Wynn received his undergraduate degree in Economics from Bucknell University. His previous employer was Susquehanna International Group, LLP, where he worked as a Trading Assistant on the Convertible and Corporate Desk for three years.

David Gregory. Mr. Gregory is responsible for credit analysis and surveillance at Strategos Capital Management, LLC. Mr. Gregory is a graduate of Bucknell University where he received a Bachelor of Science in Business Management. His previous employment includes Lucarelli Development, a Naples, FL residential real estate firm, where he served in the project management group.

Steve D'Agostino. Mr. D'Agostino joined Cohen Brothers, LLC in 2006 as a Director in charge of CDO Technology and Analytics. Mr. D'Agostino and his team are responsible for development of the firm's proprietary CDO structuring and surveillance software.

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Prior to joining Cohen Brothers, LLC, from 2003 to 2006, Mr. D'Agostino served as Director in charge of CDO analytics and technology strategy at Merrill Lynch, and from held a similar position at Credit Suisse First Boston from 1995 to 2003. Prior to joining Credit Suisse First Boston, from 1993 to 1995, Mr. D'Agostino structured cashflow and market value CDOs, CMOs, and several mortgage repackaging trades at Chase Securities. Mr. D'Agostino holds a B.S. in Electrical Engineering from Cornell University.

Peter Grimm. Mr. Grimm joined Cohen Brothers, LLC as an Associate responsible for the development of CDO Technology and Analytics. Prior to joining Cohen Brothers, LLC, from 2004 to 2006, Mr. Grimm worked for Merrill Lynch, where he helped develop the firm's models for the structuring of both cashflow and synthetic CDOs. Mr. Grimm also has experience structuring both cash and synthetic CDOs. Mr. Grimm graduated Magna Cum Laude from Columbia University with a B.S. in Electrical Engineering.

Jim Whitesell. Mr. Whitesell joined Cohen Brothers, LLC in January 2006, focusing on CDO analytics and structuring. Prior to Cohen Brothers, LLC, from 2002 to 2006, Mr. Whitesell worked as a financial engineer at Wall Street Analytics, a software firm specializing in the securitization industry. Mr. Whitesell received his B.S. in computer science from Stanford University.

Julie Cutler. Ms. Cutler joined Cohen Brothers, LLC from Merrill Lynch as a Vice President in February 2006. Prior to joining Cohen Brothers, LLC, Ms. Cutler worked at Merrill Lynch, where she took a lead role in the structuring and marketing of numerous collateralized debt obligation transactions spanning across various sectors, including High Grade and Mezzanine ABS as well as Trust Preferred securities. Ms. Cutler received a B.S.E. with a Concentration in Finance from the Wharton School at the University of Pennsylvania.

Josh Polsinelli. Mr. Polsinelli joined Cohen Brothers, LLC in February 2006 as an Associate in the capital markets group and is responsible for the structuring of collateralized debt obligations backed by bank and insurance trust preferreds, mezzanine asset-backed securities and leveraged loans. From 2004 until joining Cohen Brothers, LLC, Mr. Polsinelli was an analyst in the global structured credit products group at Merrill Lynch where he structured a variety of cashflow and synthetic collateralized debt obligations. Mr. Polsinelli is a graduate of Colgate University where he earned a bachelor's degree in economics.

Ralph Nacey. Mr. Nacey joined Cohen Brothers, LLC in April 2006. Previously, Mr. Nacey was the head of the MBS Correlation and Exotics Trading and Structuring Group of Merrill Lynch. In this capacity, Mr. Nacey was responsible for the structuring, trading and risk management of correlation based products in the RMBS and CMBS sectors. Prior to this role, Mr. Nacey was the head of synthetic structuring in the Global Structured Credit Products Group at Merrill Lynch. Before joining Merrill Lynch, Ralph Nacey was a lead structurer in the Structured Credit Products Group at Credit Suisse First Boston, where he focused on the development on new CDO products. Before joining the Structured Credit Products Group, Mr. Nacey was a member of the Mergers and Acquisitions group in the Investment Banking Division of CSFB. Prior to joining CSFB, Mr. Nacey was a Captain in the U.S. Army, where he served in various assignments. Among his military qualifications and assignments, were Platoon Leader, Executive Officer, Operations Officer, Airborne, Ranger, and Senior Parachutist.

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Mr. Nacey graduated from the United State Military Academy at West Point with a B.S. in Physics.

Eric Phillipps. Mr. Eric Phillipps joined Cohen Brothers, LLC in April 2006. Previously, Mr. Phillipps was a Vice President and lead structured-trader in the MBS Correlation and Exotics Trading and Structuring Group in the Global Markets and Investments Division of Merrill Lynch. Prior to this role, Mr. Phillipps was a lead structurer in the Global Structured Credit Products Group of Merrill Lynch, where he was responsible for structuring and determining hedging strategies for synthetic, correlation-based products. Prior to joining Merrill Lynch, Mr. Phillipps was a structurer and secondary trader of both cash and synthetic CDOs in the Structured Credit Products Group at Credit Suisse First Boston. Mr. Phillipps holds a B.A. in Philosophy-Economics from Columbia University.

Lars Norell. Mr. Norell is a Managing Director at Cohen Brothers, LLC and the head of Capital Markets. Previously, Mr. Norell served as a Managing Director at Merrill Lynch, Pierce, Fenner & Smith Incorporated where he ran the U.S. Cash Collateralized Debt Obligations product area. Prior to joining Merrill Lynch, Pierce, Fenner & Smith Incorporated in April of 2003, Mr. Norell was a Vice President in charge of Trust Preferred and Mezzanine Collateralized Debt Obligations at Credit Suisse First Boston. From August 1998 to January 2000, Mr. Norell was an attorney at Cadwalader Wickersham & Taft. Mr. Norell holds a J.D. from the University of Virginia School of Law and a B.Sc. in Business from the University of Southern Europe.

Andrew Hohns. Mr. Hohns serves as a Managing Director and Head of the Municipal Finance Platform for Cohen Brothers, LLC. He joined the firm at its inception. Additional responsibilities at Cohen Brothers, LLC have included devising capital market strategies related to the firm's structured credit products and other in-house managed funds as well as various marketing responsibilities. Prior to joining Cohen Brothers, LLC, Mr. Hohns was the Head of Marketing for iATMglobal, a division of TRM Corporation. Mr. Hohns holds a B.S. in Economics from the Wharton School at the University of Pennsylvania, and an M.L.A. from the University of Pennsylvania.

Brian James. Mr. James is Co-Head of Fixed Income at Cohen Bros. & Company. He assists in the origination of primary and secondary collateral and in the execution of the Alesco transactions. He previously worked for UBS from May 1999 to June 2002. Mr. James is a member of the Association for Investment Management and Research. He is a graduate of Greensboro College.

Joseph Messineo. Mr. Messineo is Co-Head of Fixed Income at Cohen Bros. & Company. He assists in the origination of primary and secondary collateral and in the execution of the Alesco transactions. He previously worked for UBS from March 2000 to June 2002. Mr. Messineo is a graduate of Drexel University.

Edward Sikorski. Mr. Sikorski is Director of Fixed Income Trading at Cohen Bros. & Company. In addition to his trading responsibilities, he assists in the origination of primary and secondary collateral and in the execution of the Alesco and Dekania transactions. He previously worked for UBS from August 2000 to June 2002. Mr. Sikorski is a member of

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both the Association for Investment Management and Research and the New York Society of Securities Analysts.

Rachael Fink. Ms. Fink joined Cohen Brothers, LLC in June 2006. Ms. Fink serves as Corporate Counsel for Cohen Brothers, LLC and certain of its Affiliates. Prior to joining Cohen Brothers, LLC, Ms. Fink was an associate in the Structured Finance and Derivatives practice group of the Corporate Department of Weil, Gotshal & Manges, LLP. Ms. Fink has also practiced law at Latham & Watkins LLP and Fried, Frank, Harris, Shriver and Jacobson LLP, both in New York. Ms. Fink has a BA from the University of Wisconsin, Madison and a JD, *cum laude*, from Brooklyn Law School. Ms. Fink is a member of the New York bar.

Dan Munley. Mr. Munley joined Cohen Brothers, LLC in January 2006. Mr. Munley serves as Corporate Counsel for Cohen Brothers, LLC and certain of its Affiliates. Prior to joining Cohen Brothers, LLC, Mr. Munley was a securities law attorney with Stark & Stark in Princeton, NJ and prior to that he was a securities law attorney at Hale and Dorr in Boston and Richards, Layton & Finger in Delaware. Mr. Munley is a member of the Delaware, Massachusetts, New Jersey and California bars.

Alvar Soosaar. Mr. Soosaar joined Cohen Bros. & Company, LLC in April 2004 as an Equity Analyst in the Research Department. Mr. Soosaar is responsible for equity coverage of non-bank financial services companies. Mr. Soosaar came to Cohen Brothers, LLC from Gallatin & Company, LLC, a Scarsdale, NY-based investment adviser, where he worked as an analyst and assistant to the president, in both research and compliance. Prior to Gallatin, Mr. Soosaar was at SNL Financial first as a reporter covering non-bank financial services companies, then as Editor of two biweekly merger publications. Mr. Soosaar graduated from the University of Virginia.

Kenneth R. Smith. Presently Mr. Smith manages the operations and compliance functions for Cohen Brothers, LLC. Prior to starting at Cohen Brothers, LLC, 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

CIRCULAR 230 NOTICE. THE FOLLOWING NOTICE IS BASED ON U.S. TREASURY REGULATIONS GOVERNING PRACTICE BEFORE THE IRS: (1) ANY U.S. FEDERAL TAX ADVICE CONTAINED HEREIN, INCLUDING ANY OPINION OF COUNSEL REFERRED TO HEREIN, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (2) ANY SUCH ADVICE IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS DESCRIBED HEREIN (OR IN ANY SUCH OPINION OF COUNSEL); AND (3) EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

In General

THIS SUMMARY IS ONLY APPLICABLE TO THE INITIAL PROSPECTIVE PURCHASERS OF THE OFFERED NOTES. THIS SUMMARY DOES NOT DISCUSS ANY OF THE TAX CONSIDERATIONS WITH RESPECT TO ANY HOLDER OF PREFERENCE SHARES OR SUBORDINATE NOTES.

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 Notes and the ownership and disposition of the Offered Notes. For purposes of this section, with respect to each Class of Offered Notes, the first price at which a substantial amount of Notes of such Class is 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 Notes. 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, financial institutions (including banks), tax-exempt investors, insurance companies, subsequent purchasers of Offered Notes, persons that own (directly or indirectly) equity interests in holders of Offered Notes and holders that purchase the Offered 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 Notes at original issuance and holds such Offered Notes 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 Code, a constructive sale transaction within the meaning of Section 1259 of the Code or an integrated transaction. The summary also assumes that the holder uses the U.S. dollar as its functional currency. Moreover, this description does not address the U.S. Federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of the Offered Notes. 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.

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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 Notes 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 Note who or that is (i) a citizen or resident alien 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 an Offered Note who or that 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 Notes, 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.

PROSPECTIVE PURCHASERS OF THE OFFERED NOTES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE U.S. FEDERAL INCOME TAX AND CAYMAN ISLANDS TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE OFFERED NOTES AND THE POSSIBLE APPLICATION OF STATE, LOCAL, FOREIGN OR OTHER TAX LAWS.

U.S. Federal Tax Considerations

Tax Treatment of the Issuer

As of the Closing Date, the Preference Shares and the Subordinate Notes will be owned by SLHT and the Ordinary Shares will be owned by SREH, a wholly owned subsidiary of SLHT. SLHT is an indirect wholly owned subsidiary of SFR, an entity organized under the laws of Maryland as a real estate investment trust. Neither the Issuer nor the Initial Purchaser has examined or independently verified SFR's qualifications as an entity that has made an election to be treated, for U.S. Federal income tax purposes, as a real estate investment trust under Section 856 of the Internal Revenue Code of 1986 (a "REIT") and no representations are hereby made by either the Issuer or the Initial Purchaser in respect of SFR's qualifications as a REIT. The Issuer expects to be treated as either a Qualified REIT Subsidiary or a foreign corporation and does not expect to be subject to U.S. Federal income tax on an entity level basis. If it were a Qualified REIT Subsidiary, the Issuer would be disregarded for U.S. Federal income tax purposes, SFR would be treated as owning all of the assets and issuing all of the liabilities of the Issuer for U.S. Federal income tax purposes and, accordingly, the Offered Notes would be treated as debt of SFR for U.S. Federal income tax purposes.

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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 would not be engaged in a trade or business within the United States for Federal income tax purposes if the Issuer is not a Qualified REIT Subsidiary for U.S. Federal income tax purposes, and accordingly, the Issuer would 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 Advisor's compliance with the Indenture and the Collateral Advisory Agreement. Prospective investors should be aware that an opinion of counsel is not binding on the 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 if the Issuer is not a Qualified REIT Subsidiary for the period from the acquisition until such security is sold as required pursuant to the Indenture. If the Issuer is not a Qualified REIT Subsidiary for U.S. Federal income tax purposes and is treated as engaged in a trade or business in the United States, the Issuer would be subject to substantial U.S. Federal income taxes. In such circumstances, 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.

If the Issuer is not a Qualified REIT Subsidiary for U.S. Federal income tax purposes, certain income derived by the Issuer may be subject to withholding taxes imposed by the United States or other countries, although the Issuer is generally not intended to be subject to U.S. Federal income tax on its net income. 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 Offered Notes

Status of the Offered Notes. Upon the issuance of the Offered Notes, Schulte Roth & Zabel LLP will deliver an opinion that, although there is no direct authority, the Class A-1A Notes, the Class A-1B Notes, the Class A-2 Notes, the Class B Notes and the Class C Notes will 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 Offered Notes, holders and beneficial owners of the Offered Notes will be deemed to have agreed, to treat the Offered Notes as debt for U.S. Federal income tax purposes.

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. 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

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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-1A Notes, the Class A-1B Notes, the Class A-2 Notes, the Class B Notes or the Class C Notes will be issued with OID. Therefore, U.S. holders of the Class A-1A Notes, the Class A-1B Notes, the Class A-2 Notes, the Class B Notes and Class C Notes will include stated interest thereon as ordinary interest income in accordance with their method of accounting.

Accrual of OID, if any, on the Offered 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 an Offered 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 Offered Notes will be issued at a premium.

Sale, Exchange and Retirement of the Notes. In general, a U.S. holder of an Offered Note will have a basis in such Note equal to the cost of such Offered 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 Offered Note. Upon a sale, exchange or retirement of an Offered 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 Offered Note. Generally, such gain or loss will be long-term capital gain or loss if the U.S. holder held the Offered 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 an Offered Note generally will be treated as from sources within the United States.

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 Notes generally will not be treated as resulting in UBTI, so long as such investor's acquisition of Securities is not debt-financed. Tax-Exempt Investors should consult their own tax advisors regarding an investment in the Offered Notes.

Tax Treatment of Non-U.S. Holders

Interest and OID, if any, on the Notes if the Issuer is a Qualified REIT Subsidiary. A non-U.S. holder will not be subject to U.S. Federal income or withholding tax in respect of interest income or OID, if any, on the Offered Notes if (1) the non-U.S. holder provides an

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appropriate statement, signed under penalties of perjury, identifying the non-U.S. holder and stating, among other things, that the non-U.S. holder is not a U.S. person, (2) the non-U.S. holder is not a "10-percent shareholder" or "related controlled foreign corporation" with respect to the Issuer (including SFR, SFH, SLHT and SREH) and (3) the non-U.S. holder is not a bank that purchased its interest in the Offered Notes as an extension of credit pursuant to a loan agreement entered into in the ordinary course of its trade or business. To the extent that these conditions are not met, a 30% withholding tax will apply to interest income on the Offered Notes, unless an income tax treaty reduces or eliminates such tax or the interest is effectively connected with the conduct of a trade or business within the United States by such non-U.S. holder. If the interest income or OID, if any, is effectively connected with the conduct of a trade or business in the United States by such non-U.S. holder, such non-U.S. holder will generally be subject to U.S. Federal income tax with respect to such income in the same manner as U.S. holders.

Interest and OID, if any, on the Notes if the Issuer is a Foreign Corporation. Subject to the discussion below regarding "backup withholding," a non-U.S. holder of the Offered Notes will be exempt from any U.S. Federal income or withholding taxes with respect to interest income or OID, if any, on the Offered Notes, unless such income or OID is effectively connected with a U.S. trade or business of such holder.

Gain on Sale, Exchange or Redemption. Any gain derived from the sale, exchange, or redemption of the Offered Notes will be exempt from any U.S. Federal income or withholding taxes, unless such gain is effectively connected with a U.S. trade or business of such holder, or such holder is a nonresident alien individual who holds the Offered Notes 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 Notes. 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 Note 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 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

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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 Note 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, IRS Form W-8IMY or other applicable form signed under penalties of perjury.

The payment of the proceeds on the disposition of an Offered Note 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 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 Note 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 Note 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 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 recognition of a loss. A significant penalty will be imposed on taxpayers who participate in a "reportable transaction" and fail to make the

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required disclosure in their tax returns and statements. The penalty is generally U.S.$10,000 for natural persons and U.S.$50,000 for other persons (increased to U.S.$100,000 and U.S.$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.

Tax Treatment of U.S. and Non-U.S. Holders of the Preference Shares and the Subordinate Notes

The Preference Shares and the Subordinate Notes are not offered hereby and the tax implications of an investment in the Preference Shares and the Subordinate Notes are not discussed herein.

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 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.

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The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has obtained 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 Real Estate CDO II, 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 27th day of June, 2006.

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

CIRCULAR 230 NOTICE. THE FOLLOWING NOTICE IS BASED ON U.S. TREASURY REGULATIONS GOVERNING PRACTICE BEFORE THE IRS: (1) ANY U.S. FEDERAL TAX ADVICE CONTAINED HEREIN, INCLUDING ANY OPINION OF COUNSEL REFERRED TO HEREIN, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (2) ANY SUCH ADVICE IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS DESCRIBED HEREIN (OR IN ANY SUCH OPINION OF COUNSEL); AND (3) EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

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) subject to Title I 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 Securities should determine whether, under the general fiduciary standards of ERISA or other applicable law, an investment in the 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 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, plans described in

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Section 4975(e)(1) of the Code or entities deemed to hold assets of the aforementioned plans (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 Advisor, each Hedge Counterparty, the Placement Agent 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 Securities are acquired by a Plan with respect to which any of the Issuer, the Co-Issuer, the Trustee, the Collateral Advisor, the Initial Purchaser, the Placement Agent, 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 under ERISA or Section 4975 of the Code. Moreover, the acquisition or holding of Securities 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 under ERISA or Section 4975 of the Code. Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of plan fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are PTE 90-1, regarding investments by insurance company pooled separate accounts; PTE 91-38, regarding investments by bank collective investment funds; PTE 84-14, regarding transactions effected by a "qualified professional asset manager"; PTE 96-23, regarding investments by certain in house asset managers; and PTE 95-60, regarding investments by insurance company general accounts. Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions under ERISA or Section 4975 of the Code. If a purchase of Securities were to be a non-exempt prohibited transaction under ERISA or Section 4975 of the Code, 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 Section 4975 of the Code, has issued a regulation (the "Plan Asset Regulation") setting forth that if Plans acquire "equity interests" in an entity, then, under certain specified circumstances, Plan fiduciaries, and entities with certain specified relationships to a Plan, are required to "look through" the entity, including investment vehicles such as the Issuer, and treat as an "asset" of the Plan an undivided interest in each underlying investment made by

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such entity. 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 any of the aforementioned 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 such entity or providing investment advice with respect to the assets of such 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-1A Notes, the Class A-1B Notes, the Class A-2 Notes, the Class B Notes and the Class C Notes will constitute "equity interests" (for purposes of the Plan Asset Regulation) in the Co-Issuers. Accordingly, no measures (such as those described below with respect to the Preference Shares) will be taken to restrict investment in each such Class of Notes by Benefit Plan Investors. However, there can be no assurance that each such 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.

Although there is no authority directly on point, it is possible that the Subordinate Notes may be treated as equity interests for purposes of the Plan Asset Regulation. Accordingly, the Issuer intends to prohibit the acquisition of Subordinate Notes by Benefit Plan Investors. Subordinate Notes may not be purchased or held by Benefit Plan Investors, including for this purpose, an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA (and a wholly owned subsidiary of such a general account).

Each Original Purchaser and each transferee of a Subordinate Note is required to represent, warrant and agree that it is not and will not be a Benefit Plan Investor. No Subordinate Notes may be transferred to a transferee acquiring a Subordinate Note unless the transferee executes and delivers to the Issuer and the Fiscal Agent a transfer certificate in the form attached as an exhibit to the Fiscal Agency Agreement to the effect that such purchaser is not a Benefit Plan Investor.

As of any later date on which any Person purchases any of the Subordinate Notes or becomes a Benefit Plan Investor, if the holder of a Subordinate Note is a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA and a wholly owned subsidiary of such a general account), then such holder is required to dispose of the Subordinate

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Notes then held by it within 30 days after notice of such sale requirement is given. (See "Transfer Restrictions.")

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 Plan Investors will be maintained at a level below the 25% Threshold (determined after disregarding the Preference Shares held by Controlling Persons) by limiting the transfer of Preference Shares to Benefit Plan Investors or Controlling Persons after the Closing Date.

Each Original Purchaser and each transferee of Preference Shares from the Issuer or the Initial Purchaser is required to certify in the Subscription Agreement pursuant to which such Preference Shares are purchased or in the applicable transfer certificate whether or not it is a Benefit Plan Investor or a Controlling Person. No purchase or transfer of a Preference Share to a Benefit Plan Investor or a Controlling Person will be permitted unless, after giving effect to such purchase or transfer, the 25% Threshold will be satisfied. Any subsequent transferee that acquires Preference Shares is 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 a 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 Preference Share, 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 Subordinate Notes, Preference Shares or other "equity interests" of the Issuer, 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 the prohibited transaction provisions of 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.

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In addition, it should be noted that, if Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes or Class C Notes are acquired by a Plan with respect to which a holder of a Subordinate Note or 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-1A Notes, Class A-1B 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 of ERISA and Section 4975 of the Code. In this regard, each Plan, and each Person investing plan assets, that purchases Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes or Class C Notes will be deemed to represent and warrant that its purchase of the Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes or Class C Notes is subject to an exemption from the prohibited transaction rules of ERISA and Section 4975 of the Code.

The sale of any Security to a Plan is in no respect a representation by the Issuer, the Initial Purchaser, the Placement Agent 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 NOTE (OTHER THAN A SUBORDINATE NOTE) OR ANY INTEREST THEREIN IS 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 SUCH NOTE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS ANY SUCH NOTE OR ANY 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") THAT IS SUBJECT TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE, AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101 (THE "PLAN ASSET REGULATION"), 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 (OTHER THAN A SUBORDINATE 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 NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW).

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A SUBORDINATE NOTE IS REQUIRED TO REPRESENT, WARRANT AND AGREE THAT

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SUCH HOLDER IS NOT (AND FOR SO LONG AS IT HOLDS A SUBORDINATE NOTE WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS A SUBORDINATE NOTE WILL NOT BE ACTING ON BEHALF OF) (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA), WHETHER OR NOT SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN SECTION 4975(e)(1) OF THE CODE, OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" (WITHIN THE MEANING OF THE PLAN ASSET REGULATION) BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS") AND INCLUDING FOR THIS PURPOSE INSURANCE COMPANY GENERAL ACCOUNTS ANY OF THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA (AND A WHOLLY OWNED SUBSIDIARY OF SUCH A GENERAL ACCOUNT).

EACH ORIGINAL PURCHASER OF A PREFERENCE SHARE AND EACH TRANSFEREE OF A PREFERENCE SHARE IS REQUIRED TO CERTIFY WHETHER OR NOT IT IS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON (EACH, AS DEFINED BELOW). NO PURCHASE OR TRANSFER OF PREFERENCE SHARES WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH PURCHASE OR TRANSFER IF, AFTER GIVING EFFECT TO SUCH TRANSFER, 25% OR MORE OF THE PREFERENCE SHARES (DISREGARDING THE PREFERENCE SHARES HELD BY PERSONS OTHER THAN BENEFIT PLAN INVESTORS THAT HAVE DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER, OR THAT PROVIDE INVESTMENT ADVICE FOR A FEE, DIRECT OR INDIRECT, WITH RESPECT TO SUCH ASSETS, OR ANY AFFILIATES OF SUCH PERSONS (EACH, A "CONTROLLING PERSON")) WOULD BE HELD BY BENEFIT PLAN INVESTORS.

NO PREFERENCE SHARE MAY BE ACQUIRED BY OR TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON UNLESS, AFTER GIVING EFFECT TO SUCH TRANSFER, LESS THAN 25% OF THE PREFERENCE SHARES WOULD BE HELD BY BENEFIT PLAN INVESTORS (DISREGARDING THE PREFERENCE SHARES HELD BY CONTROLLING PERSONS).

AN ORIGINAL PURCHASER OF A PREFERENCE SHARE AND EACH TRANSFEREE OF A PREFERENCE SHARE THAT IS A BENEFIT PLAN INVESTOR SUBJECT TO TITLE I OF ERISA, THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE OR ANY SIMILAR LAW IS REQUIRED TO CERTIFY THAT ITS ACQUISITION AND HOLDING OF SUCH PREFERENCE SHARES 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 NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SIMILAR LAW). A "BENEFIT PLAN INVESTOR" INCLUDES AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA), WHETHER OR NOT IT IS SUBJECT TO TITLE I OF ERISA, A "PLAN" (AS DEFINED IN SECTION 4975(e)(1) OF THE CODE), ANY ENTITY WHOSE UNDERLYING

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ASSETS INCLUDE PLAN ASSETS BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY, AND AN INSURANCE COMPANY GENERAL ACCOUNT ANY OF THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA (AND A WHOLLY OWNED SUBSIDIARY OF SUCH GENERAL ACCOUNT).

ANY PLAN FIDUCIARY THAT PROPOSES TO CAUSE A PLAN TO PURCHASE 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 SECURITIES IS APPROPRIATE FOR THE PLAN, TAKING INTO ACCOUNT THE OVERALL INVESTMENT POLICY OF THE PLAN AND THE COMPOSITION OF THE PLAN'S INVESTMENT PORTFOLIO. NO TRANSFER OF A PREFERENCE SHARE 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 (and a wholly owned subsidiary of such a 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 Securities with assets of its general account (or the assets of a wholly owned subsidiary of such 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 and Cohen Bros. & Company LLC, in its capacity as placement agent (the "Placement Agent"), will enter into a securities purchase agreement (the "Purchase Agreement") relating to the purchase, placement and sale of the Offered Notes to be delivered on the Closing Date. The Offered Notes will be offered by the Initial Purchaser and the Placement Agent, as the case may be, 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 and the Placement Agent, as the case may be, reserve the right to withdraw, cancel, or modify such offer and to reject orders in whole or in part. The Initial Purchaser's and the Placement Agent's responsibility is limited to a "reasonable efforts" basis in placing the Offered Notes, with no understanding, express or implied, on the part of the Initial Purchaser of a commitment by the Initial Purchaser or the Placement Agent, whether as principal or agent, to purchase or place the Offered Notes. The Placement Agent shall have no obligation to place any of the Offered Notes. 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 and the Placement Agent against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchaser or the Placement Agent may be required to make in respect thereof. The Offered Notes 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.

The Co-Issuers have been advised by the Initial Purchaser and the Placement Agent that the Initial Purchaser and the Placement Agent, respectively, propose to sell or place, as the case may be, the Offered Notes (a) in the United States in reliance upon an exemption from the registration requirements of the Securities Act to Qualified Purchasers who are also Qualified Institutional Buyers 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.

The Subordinate Notes and the Preference Shares are not being offered hereby. The Subordinate Notes and the Preference Shares are being offered by the Issuer to SLHT, in a privately negotiated transaction. None of the Initial Purchaser, the Placement Agent nor any of their respective affiliates nor any other person is acting as initial purchaser or distributor with respect to the Subordinate Notes or the Preference Shares.

Each Original Purchaser of a Preference Share will be required to execute and deliver a Subscription Agreement in form and substance satisfactory to the Initial Purchaser, the Placement Agent and the Issuer.

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CERTAIN SELLING RESTRICTIONS

United States

The 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, each of the Initial Purchaser and the Placement Agent will represent and agree that it has not offered or sold Offered Notes and will not offer or sell Offered Notes 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, each of the Initial Purchaser and the Placement Agent 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 Notes, and it and they have complied and will comply with the offering restrictions requirements of Regulation S.

(2) In the Purchase Agreement, each of the Initial Purchaser and the Placement Agent will agree that it will not, acting either as principal or agent, offer or sell any Offered Notes in the United States other than Offered Notes 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 Notes (or approve the resale of any of such Offered Notes):

(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 that is also a Qualified Purchaser or (2) otherwise in accordance with the restrictions on transfer set forth in such Offered Notes, 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 or placement of any Offered Notes in registered form bearing a restrictive legend thereon, each of the Initial Purchaser or the Placement Agent, as the case may be, shall have provided each offeree that is a U.S. Person with a copy of the Offering Circular in the form the Issuer, the Placement Agent 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, each of the Initial Purchaser and the Placement Agent will represent and agree that in connection with each sale or placement of Offered Notes to a Qualified Institutional Buyer it has taken or will take reasonable steps to ensure that the purchaser is aware that the Offered Notes have not been and will not be registered under the Securities Act and that transfers of Offered Notes are restricted as set forth herein.

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United Kingdom

Each of the Initial Purchaser and the Placement Agent will also represent and agree as follows:

(1) 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 Notes in, from or otherwise involving the United Kingdom; and

(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 Notes in circumstances in which Section 21(1) of said Act does not apply to the Co-Issuers.

Cayman Islands

Each of the Initial Purchaser and the Placement Agent 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 Securities.

Hong Kong

Each of the Initial Purchaser and the Placement Agent 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 Securities or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuer or the Securities in any country or jurisdiction where action for that purpose is required. Accordingly, the 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 Securities may be distributed or published, in or from any

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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 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 Securities will be required, as a condition to payment of amounts on the 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, the Placement Agent, as the case may be, and each Original Purchaser of Preference Shares (or any beneficial interest therein) will be required in a Subscription Agreement to acknowledge, represent and warrant to and agree with the Issuer, the Placement Agent, as the case may be, and the Initial Purchaser as follows:

(1) *No Governmental Approval.* The purchaser understands that the 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 or the Fiscal Agency Agreement, as applicable) and each purchaser of Preference Shares will, prior to any sale, pledge or other transfer by it of any such Security (or any interest therein), obtain from the transferee and deliver to the Issuer and the Secured Note Registrar (in the case of a Secured Note), the Subordinate Note Registrar (in the case of a Subordinate 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, the Fiscal Agency Agreement 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 Secured Notes), the Fiscal Agent (in the case of the Subordinate 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, the Fiscal Agency Agreement or the Preference Share Documents.

(3) *Minimum Denominations.* The purchaser agrees that no 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 Secured Notes), the Fiscal Agency Agreement (in the case of the Subordinate Notes) or the Preference Share Documents (in the case of the Preference Shares).

(4) *Securities Law Limitations on Resale.* The purchaser understands that the 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 Securities will bear a legend stating that the Securities have not been registered under the Securities Act and setting forth certain of the restrictions on transfer of the 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 Securities under the Securities Act or to comply with the requirements for any exemption from the registration requirements of the Securities Act

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(other than to supply information specified in Rule 144A(d)(4) of the Securities Act as required by the Indenture, the Fiscal Agency Agreement and the Preference Share Documents).

(5) *List of Participants Holding Positions in Securities*. Each purchaser of a Security understands that the Issuer may receive a list of participants holding positions in the Securities from one or more book-entry depositaries, including DTC, Euroclear and Clearstream Banking.

(6) *Qualified Institutional Buyer, Permitted Equity Investor or Non-U.S. Person Status; Investment Intent*. In the case of a purchaser who takes delivery of the Secured Notes in the form of a Restricted Global Note (or interest therein), it is a Qualified Institutional Buyer and is acquiring the Secured Notes for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A). In the case of a purchaser who takes delivery of the Secured Notes in the form of Regulation S Notes, (i) it is not a U.S. Person and is purchasing such Secured Notes for its own account (or as agent on behalf of a client 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 may only be held through Euroclear or Clearstream, Luxembourg and (B) if in the future it decides to transfer interests held in such Regulation S Global Note, it will transfer the interest in such Regulation S Global Note 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. In the case of a purchaser who takes delivery of the Subordinate Notes or the Preference Shares, it is (a) a Qualified Institutional Buyer or (b) a Permitted Equity Investor, and is acquiring the Subordinate Notes or Preference Shares, as applicable, for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A).

(7) *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 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 Placement Agent, the Issuer, the Co-Issuer, the Collateral Advisor or any of their respective affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in 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 Securities as it has deemed necessary to make its own independent decision to purchase Securities, including the opportunity, at a reasonable time prior to its purchase of Securities, to ask questions and receive answers concerning the Issuer and the terms and conditions of the offering of the Securities. The purchaser acknowledges that it is aware that the Collateral Advisory Agreement and the Indenture authorize the Collateral Advisor to cause the Issuer to purchase Collateral Debt Securities from, and sell Collateral Debt Securities to, the Collateral Advisor, its Affiliates and funds managed by the Collateral Advisor 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 Advisory Agreement and the Indenture.

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(8) *Certain Resale Limitations*. The purchaser is aware that no 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 a 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 Subordinate Note or a Preference Share, to a Permitted Equity Investor in accordance with another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (ii) to a transferee that is a Qualified Purchaser, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) in compliance with the certification (if any) and other requirements set forth in the Indenture, the Fiscal Agency Agreement or the Preference Share Documents, as applicable, and (v) 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 except (i) to a transferee that is acquiring such interest in an offshore transaction in accordance with Rule 903 or Rule 904 of 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 compliance with the certification (if any) and other requirements set forth in the Indenture, the Fiscal Agency Agreement or the Preference Share Documents and (v) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(9) *Limited Liquidity*. The purchaser understands that there is no market for any Class of Securities and that no assurance can be given as to the liquidity of any trading market for such Class of Securities or that a trading market for such Class of Securities will develop. It further understands that, although the Initial Purchaser or the Placement Agent may from time to time make a market in a Class of Securities, neither the Initial Purchaser nor the Placement Agent, as the case may be, is 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 Securities for an indefinite period of time or until their maturity.

(10) *Investment Company Act*. The purchaser either (a) is not a U.S. Person or (b) is a Qualified Purchaser. With respect to the Subordinate Notes and the Preference Shares, the purchaser is either (a) a Qualified Institutional Buyer or (b) a Permitted Equity Investor. The purchaser agrees that no sale, pledge or other transfer of a Note or Preference Share (or any interest therein) may be made (a) to a transferee acquiring Restricted Notes (or any interest therein), Subordinate Notes or Preference Shares except to a transferee that is a Qualified Purchaser, (b) solely in the case of a Regulation S Note, to a transferee acquiring an interest therein 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. The purchaser agrees that no sale, pledge or other transfer of a Subordinate Note or a Preference Share may be made to a transferee that is neither (a) a Qualified Institutional Buyer, nor (b) a Permitted Equity Investor.

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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.

(11) *ERISA*. In the case of a purchaser of a Note (other than a Subordinate Note), either (a) it is not (and for so long as it holds any such Note, 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 or a non-exempt violation of a Similar Law.

In the case of a purchaser of a Subordinate Note, the purchaser is not, and is not acting on behalf of and will not be and will not be acting on behalf of a Benefit Plan Investor. Each Original Purchaser and each transferee of a Subordinate Note is required to represent, warrant and agree that it is not and will not be a Benefit Plan Investor. In the case of a purchaser of Subordinate Notes that is an insurance company, if the source of funds used to purchase the Subordinate Note is its general account (or a wholly owned subsidiary of such general account), the insurance company must represent that no portion of the underlying assets of the "general account" (as determined by the insurance company) constitute "plan assets" under Section 401(c) of ERISA.

In the case of a purchaser of a Preference Share, except as otherwise disclosed in the Subscription Agreement or a transfer certificate, either (a) the purchaser is not a Benefit Plan Investor or a Controlling Person or (b) its purchase and ownership of such Preference Share will not constitute a non-exempt prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code or a non-exempt violation of Similar Law. Each purchaser and each transferee of a Preference Share understands and agrees that no sale, pledge or other transfer of a Preference Share may be made to a Benefit Plan Investor or a Controlling Person if, after giving effect to such purchase or transfer, 25% or more of the Preference Shares would be held by Benefit Plan Investors (determined after disregarding the Preference Shares held by Controlling Persons).

(12) *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 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-

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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 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 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 Issuer or the Co-Issuers, as the case may be, and the Secured Note Registrar, Subordinate Note Registrar or the Preference Share Registrar, as the case may be, each of the representations set forth in this Offering Circular, the transfer certificates, the Indenture (in the case of the Secured Notes), the Fiscal Agency Agreement (in the case of the Subordinate Notes) or the Preference Share Documents (in the case of the Preference Shares) required to be made upon transfer of any 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 or Preference Shares, including any modification permitting the beneficial owner of securities issued by such entity to represent that, in the case of Subordinate Notes and Preference Shares, it is a Permitted Equity 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 Securities).

(13) *Certain Transfers Void.* The purchaser agrees that (a) any sale, pledge or other transfer of a Security (or any interest therein) made in violation of the transfer restrictions contained in this Offering Circular and in the Indenture, the Fiscal Agency Agreement 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 (in the case of the Secured Notes), the Secured Note Registrar (in the case of the Secured Notes), the Fiscal Agent (in the case of the Subordinate Notes), the Subordinate Note Registrar (in the case of the Subordinate Notes) and the Preference Share Paying Agent (in the case of the Preference Shares) has any obligation to recognize any sale, pledge or other transfer of a Security (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

The purchaser of a Secured Note acknowledges that the Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner or holder of (A) a Regulation S Note (or any interest therein) is a U.S. Person or (B) a Restricted Note (or any interest therein) is not a Qualified Institutional Buyer and also a Qualified Purchaser, then either of the Co-Issuers (or the Collateral Advisor on its behalf) shall require, by notice to such beneficial owner or holder, as the case may be, that such beneficial owner or holder sell all of its right, title and interest to such Restricted Note (or any interest therein) to a person that (1) in the case of a person holding its interest through a

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Regulation S Note, is not a U.S. Person, or (2) in the case of a person holding its interest through a Restricted Note, is both (I) a Qualified Institutional Buyer and (II) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner or holder fails to effect the transfer required within such 30-day period, (i) upon direction from the Issuer (or the Collateral Advisor on its behalf), the Trustee, on behalf of and at the expense of the Issuer, shall, and is hereby irrevocably authorized by such beneficial owner or holder to, cause such beneficial owner's or holder'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 (x) is not a U.S. Person (in the case of a person holding its interest through a Regulation S Note) or (y) is both (1) a Qualified Institutional Buyer and (2) a Qualified Purchaser (in the case of a person holding its interest through a Restricted Note) and (ii) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner or holder and such Note shall be deemed not to be outstanding for the purpose of any vote or consent of the Noteholders.

The purchaser of a Subordinate Note or a Preference Share acknowledges that each of the Fiscal Agency Agreement and the Preference Share Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any holder or any beneficial owner of either Subordinate Notes or Preference Shares is not both (1) (x) a Qualified Institutional Buyer or (y) a Permitted Equity Investor that is entitled to take delivery of such Preference Shares 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 (2) a Qualified Purchaser, then the Issuer (or the Collateral Advisor on its behalf) shall require, by notice to such holder or beneficial owner, that such holder or beneficial owner sell all of its right and title in or to such Subordinate Notes or Preference Shares to a Person that is both (1) either (x) a Qualified Institutional Buyer or (y) a Permitted Equity Investor that is entitled to take delivery of such Preference Shares 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 (2) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such holder or beneficial owner fails to effect the transfer required within such 30-day period, (I) upon written direction from the Issuer (or the Collateral Advisor on its behalf), the Preference Share Paying Agent (on behalf of and at the expense of the Issuer) shall cause such holder or beneficial owner's Subordinate Notes or Preference Shares to be transferred in a commercially reasonable sale arranged by the Issuer (conducted by an investment bank selected by the Fiscal Agent or the Preference Share Paying Agent, as applicable, 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 Fiscal Agent or the Preference Share Paying Agent, as applicable, and the Issuer in connection with such transfer, that such Person is

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both (1) either (x) a Qualified Institutional Buyer or (y) a Permitted Equity Investor that is entitled to take delivery of such Preference Shares 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 (2) a Qualified Purchaser and (II) pending such transfer, no payments will be made on such Subordinate Notes or Preference Shares, as applicable, from the date notice of the sale requirement is sent to the date on which such Subordinate Notes or Preference Shares, as applicable, is sold and such Subordinate Notes or Preference Shares, as applicable, shall be deemed not to be Outstanding for the purposes of any vote, consent or direction of the Subordinate Noteholders or the Preference Shareholders, as applicable, and shall not be taken into account for the purposes of calculating any quorum or majority requirements relating thereto.

The purchaser of a Subordinate Note acknowledges that the Fiscal Agency Agreement provides that if, notwithstanding the restrictions contained therein, the Issuer determines that a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA (and a wholly owned subsidiary of such a general account) purchased a Subordinate Note (or, subsequent to the purchase of a Subordinate Note, any owner of a Subordinate Note becomes a Benefit Plan Investor (including for this purpose an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly owned subsidiary of such general account)), the Issuer (or the Collateral Advisor on its behalf) shall require, by notice to such Benefit Plan Investor, that such Benefit Plan Investor sell all of its right and title in or to such Subordinate Note in accordance with the Fiscal Agency Agreement with such sale to be effected within 30 days after notice of such sale requirement is given. If such Benefit Plan Investor fails to effect the transfer required within such 30-day period, (x) upon written direction from the Issuer (or the Collateral Advisor on its behalf), the Trustee or the Fiscal Agent, as applicable, shall, and is hereby irrevocably authorized by such Benefit Plan Investor or insurance company to, cause such Subordinate Note to be transferred in a commercially reasonable sale arranged by the Collateral Advisor (conducted by the Trustee or the Fiscal Agent, as applicable, or an investment bank selected by the Trustee or the Fiscal Agent, as applicable, 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 or the Fiscal Agent, the Issuer and the Collateral Advisor, in connection with such transfer, that such person satisfies the requirements for a purchaser of a Subordinate Note pursuant to the Indenture or the Fiscal Agency Agreement and (y) pending such transfer, no further payments will be made in respect of such Subordinate Note and such Subordinate Note shall not be deemed to be outstanding for the purpose of any vote or consent of the Noteholders.

The purchaser of a Preference Share acknowledges that the Preference Share Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that (i) an Original Purchaser of a Preference Share or a subsequent transferee of a Preference Share that is a Benefit Plan Investor or a Controlling Person did not disclose in a Subscription Agreement 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

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of such Preference Share that it is a Benefit Plan Investor or a Controlling Person or (ii) subsequent to the purchase of a Preference Share, any owner of a Preference Share becomes a Benefit Plan Investor (including for this purpose an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly owned subsidiary of such general account) or a Controlling Person or (iii) as a result of the purchase or transfer of a Preference Share, 25% or more of the Preference Shares are held by Benefit Plan Investors (determined after disregarding the Preference Shares held by Controlling Persons), then the Issuer shall require, by notice to such owner, that such owner sell all of its right and title in or to such Preference Shares (or interest therein) to a Person that is (A)(x) a Qualified Institutional Buyer or (y) a Permitted Equity Investor that is entitled to take delivery of such 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. If such beneficial owner or holder fails to effect the transfer required within such 30-day period, (I) upon written direction from the Collateral Advisor or the Issuer, the Preference Share Paying Agent (on behalf of and at the expense of the Issuer) shall cause such holder's Preference Shares to be transferred to a person that is eligible to own such Preference Share 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 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 purpose 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. See "Description of the Preference Shares—Form, Registration and Transfer."

(14) *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.

(15) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuer, the Initial Purchaser, the Placement Agent, the Trustee, the Collateral Advisor 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 Securities are no longer accurate, the purchaser will promptly notify the Issuer, the Initial Purchaser and the Placement Agent.

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(16) *Cayman Islands.* The purchaser is not a member of the public in the Cayman Islands.

(17) *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 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")][1] [TO AN "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT), 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)],[2] (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE [INDENTURE][3] [FISCAL AGENCY AGREEMENT][4] 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 THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER [THE TRUSTEE NOR THE SECURED NOTE REGISTRAR][5] [THE FISCAL AGENT NOR THE SUBORDINATE NOTE REGISTRAR][6] WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS [A U.S. PERSON THAT IS][7] NOT BOTH (X) [EITHER][8] A QUALIFIED INSTITUTIONAL

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1 For the Secured Notes.

2 For the Subordinate Notes.

3 For the Secured Notes.

4 For the Subordinate Notes.

5 For the Secured Notes.

6 For the Subordinate Notes.

7 For the Secured Notes.

8 For the Subordinate Notes.

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BUYER [OR A PERMITTED EQUITY INVESTOR][9] AND (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)][10] [(EACH AS DEFINED IN THE FISCAL AGENCY AGREEMENT)][11] OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON THAT IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE (IF ANY) ATTACHED AS AN EXHIBIT TO [THE INDENTURE][12] [THE FISCAL AGENCY AGREEMENT][13] REFERRED TO HEREIN. [EACH HOLDER OF THIS NOTE OR A BENEFICIAL INTEREST IN THIS NOTE IS REQUIRED TO CERTIFY (OR IN CERTAIN CIRCUMSTANCES 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 ANY SUCH NOTE OR ANY 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 INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") THAT IS SUBJECT TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE, AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR 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 NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW)][14].

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[9] For the Subordinate Notes

[10] For the Secured Notes.

[11] For the Subordinate Notes.

[12] For the Secured Notes.

[13] For the Subordinate Notes.

[14] For the Secured Notes.

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[EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF THIS NOTE IS REQUIRED TO REPRESENT, WARRANT AND AGREE THAT SUCH HOLDER IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE WILL NOT BE ACTING ON BEHALF OF) (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA), WHETHER OR NOT SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN SECTION 4975(e)(1) OF THE CODE, OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" (WITHIN THE MEANING OF THE PLAN ASSET REGULATION) BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS") AND INCLUDING FOR THIS PURPOSE INSURANCE COMPANY GENERAL ACCOUNTS ANY OF THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA (AND A WHOLLY OWNED SUBSIDIARY OF SUCH A GENERAL ACCOUNT).][15]

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED ONLY IN PERMITTED DENOMINATIONS SPECIFIED IN THE [INDENTURE][16] [FISCAL AGENCY AGREEMENT][17]. [THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON THAT ACQUIRES A BENEFICIAL INTEREST IN A [REGULATION S NOTE][18] [RESTRICTED NOTE][19] UPON RECEIPT BY THE TRUSTEE OF A TRANSFER CERTIFICATE FROM THE TRANSFEROR SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE.][20] ACCORDINGLY, AN INVESTOR IN THIS NOTE MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

[IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THIS NOTE OR THE FISCAL AGENCY AGREEMENT, THE ISSUER DETERMINES THAT A BENEFIT PLAN INVESTOR, INCLUDING FOR THIS PURPOSE, AN INSURANCE COMPANY GENERAL ACCOUNT ANY OF THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA (AND A WHOLLY OWNED SUBSIDIARY OF SUCH A GENERAL ACCOUNT) PURCHASED A SUBORDINATE NOTE (OR, SUBSEQUENT TO THE PURCHASE OF A SUBORDINATE NOTE, ANY OWNER OF A SUBORDINATE NOTE BECOMES A BENEFIT PLAN INVESTOR (INCLUDING FOR THIS PURPOSE AN INSURANCE COMPANY GENERAL ACCOUNT ANY OF THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(C) OF ERISA OR A WHOLLY OWNED SUBSIDIARY OF SUCH GENERAL ACCOUNT)), THE ISSUER (OR THE COLLATERAL ADVISOR ON ITS BEHALF) SHALL REQUIRE, BY NOTICE TO SUCH BENEFIT PLAN INVESTOR, THAT SUCH BENEFIT PLAN INVESTOR SELL ALL OF ITS RIGHT AND TITLE IN OR TO SUCH SUBORDINATE NOTE IN ACCORDANCE WITH THE FISCAL AGENCY AGREEMENT,

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15 For the Subordinate Notes.

16 For the Secured Notes.

17 For the Subordinate Notes.

18 For the Restricted Notes.

19 For the Regulation S Notes.

20 For the Secured Notes.

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WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH BENEFIT PLAN INVESTOR FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (X) UPON WRITTEN DIRECTION FROM THE ISSUER (OR THE COLLATERAL ADVISOR ON ITS BEHALF), THE FISCAL AGENT SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH BENEFIT PLAN INVESTOR OR INSURANCE COMPANY TO, CAUSE ITS SUBORDINATE NOTE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE ARRANGED BY THE COLLATERAL ADVISOR (CONDUCTED BY THE FISCAL AGENT OR AN INVESTMENT BANK SELECTED BY THE FISCAL AGENT IN ACCORDANCE WITH SECTION 9-610(b) OF THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE STATE OF NEW YORK AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON THAT CERTIFIES TO THE FISCAL AGENT, THE ISSUER AND THE COLLATERAL ADVISOR, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON SATISFIES THE REQUIREMENTS FOR A PURCHASER OF A SUBORDINATE NOTE PURSUANT TO THE FISCAL AGENCY AGREEMENT AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF SUCH SUBORDINATE NOTE AND SUCH SUBORDINATE NOTE SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE NOTEHOLDERS.][21]

IF, NOTWITHSTANDING THE RESTRICTIONS ON TRANSFER CONTAINED IN THE [INDENTURE][22] [FISCAL AGENCY AGREEMENT],[23] EITHER OF THE CO-ISSUERS DETERMINES THAT ANY [BENEFICIAL OWNER OR][24] HOLDER OF [(A) A REGULATION S NOTE (OR ANY INTEREST THEREIN) IS A U.S. PERSON OR (B) A RESTRICTED NOTE (OR ANY INTEREST THEREIN) IS NOT BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER,][25] [A SUBORDINATE NOTE IS NOT BOTH (A) EITHER (1) A QUALIFIED INSTITUTIONAL BUYER OR (2) AN ACCREDITED INVESTOR THAT IS A PERSON (OTHER THAN ANY RATING ORGANIZATION RATING THE ISSUER'S SECURITIES) INVOLVED IN THE ORGANIZATION OR OPERATION OF THE ISSUER OR AN AFFILIATE, AS DEFINED IN RULE 405 UNDER THE SECURITIES ACT, OF SUCH A PERSON (A "PERMITTED EQUITY INVESTOR") AND (B) A QUALIFIED PURCHASER,][26] THEN EITHER OF THE CO-ISSUERS (OR THE COLLATERAL ADVISOR ON ITS BEHALF) SHALL REQUIRE, BY NOTICE TO SUCH BENEFICIAL OWNER OR HOLDER, AS THE CASE MAY BE, THAT SUCH BENEFICIAL OWNER OR HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO SUCH NOTE [(OR ANY INTEREST THEREIN)][27] TO A PERSON THAT [(1) IS NOT A U.S. PERSON (IN THE CASE OF A PERSON HOLDING ITS INTEREST THROUGH A REGULATION S NOTE) OR (2) IN THE CASE OF A PERSON HOLDING ITS INTEREST THROUGH A RESTRICTED NOTE, IS BOTH (I) A QUALIFIED

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[21] For the Subordinate Notes.

[22] For the Secured Notes.

[23] For the Subordinate Notes.

[24] For the Secured Notes.

[25] For the Secured Notes.

[26] For the Subordinate Notes.

[27] For the Secured Notes.

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INSTITUTIONAL BUYER AND (II) A QUALIFIED PURCHASER,][28] [IS BOTH (A) EITHER (1) A QUALIFIED INSTITUTIONAL BUYER OR (2) A PERMITTED EQUITY INVESTOR AND (B) A QUALIFIED PURCHASER,][29] WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH [BENEFICIAL OWNER OR][30] HOLDER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (I) UPON DIRECTION FROM THE ISSUER (OR THE COLLATERAL ADVISOR ON ITS BEHALF), THE [TRUSTEE][31] [FISCAL AGENT][32] SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH BENEFICIAL OWNER OR HOLDER TO, ON BEHALF OF AND AT THE EXPENSE OF THE ISSUER, CAUSE SUCH BENEFICIAL OWNER'S OR HOLDER'S INTEREST IN SUCH NOTE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE [TRUSTEE][33] [FISCAL AGENT][34] 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][35] [FISCAL AGENT][36] AND THE CO-ISSUERS, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON [(X) IS NOT A U.S. PERSON (IN THE CASE OF A PERSON HOLDING ITS INTEREST THROUGH A REGULATION S NOTE) OR (Y) IS BOTH (1) A QUALIFIED INSTITUTIONAL BUYER AND (2) A QUALIFIED PURCHASER (IN THE CASE OF A PERSON HOLDING ITS INTEREST THROUGH A RESTRICTED NOTE)][37] [IS BOTH (A) EITHER (1) A QUALIFIED INSTITUTIONAL BUYER OR (2) A PERMITTED EQUITY INVESTOR AND (2) A QUALIFIED PURCHASER][38] AND (II) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF SUCH NOTE HELD BY SUCH BENEFICIAL OWNER OR HOLDER AND SUCH NOTE SHALL BE DEEMED NOT TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE NOTEHOLDERS.

IN ADDITION, NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER [THE TRUSTEE NOR THE SECURED NOTE REGISTRAR][39] [THE FISCAL AGENT NOR THE SUBORDINATE NOTE REGISTRAR][40] WILL RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE

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28 For the Secured Notes.

29 For the Subordinate Notes.

30 For the Secured Notes.

31 For the Secured Notes.

32 For the Subordinate Notes.

33 For the Secured Notes.

34 For the Subordinate Notes.

35 For the Secured Notes.

36 For the Subordinate Notes.

37 For the Secured Notes.

38 For the Subordinate Notes.

39 For the Secured Notes.

40 For the Subordinate Notes.

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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.

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 SECURED NOTE REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE 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 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.

(18) *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 OR (2) 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,

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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 ORIGINAL PURCHASER OF A PREFERENCE SHARE AND EACH TRANSFEREE OF A PREFERENCE SHARE WILL BE REQUIRED TO CERTIFY WHETHER OR NOT IT IS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON (EACH, AS DEFINED BELOW). NO PURCHASE OR TRANSFER OF PREFERENCE SHARES WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH PURCHASE OR TRANSFER IF, AFTER GIVING EFFECT TO SUCH PURCHASE OR TRANSFER, 25% OR MORE OF THE PREFERENCE SHARES (DISREGARDING THE PREFERENCE SHARES HELD BY PERSONS OTHER THAN BENEFIT PLAN INVESTORS THAT HAVE DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER, OR THAT PROVIDE INVESTMENT ADVICE FOR A FEE, DIRECT OR INDIRECT, WITH RESPECT TO SUCH ASSETS, OR ANY AFFILIATES OF SUCH PERSONS (EACH, A "CONTROLLING PERSON")) WOULD BE HELD BY BENEFIT PLAN INVESTORS.

NO PREFERENCE SHARE MAY BE ACQUIRED BY OR TRANSFERRED TO A BENEFIT PLAN INVESTOR OR TO A CONTROLLING PERSON UNLESS, AFTER GIVING EFFECT TO SUCH TRANSFER, LESS THAN 25% OF THE PREFERENCE SHARES WOULD BE HELD BY BENEFIT PLAN INVESTORS (DISREGARDING THE PREFERENCE SHARES HELD BY CONTROLLING PERSONS).

AN ORIGINAL PURCHASER OF A PREFERENCE SHARE AND EACH TRANSFEREE OF A PREFERENCE SHARE THAT IS A BENEFIT PLAN INVESTOR SUBJECT TO TITLE I OF ERISA, THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE OR ANY SIMILAR LAW WILL BE REQUIRED TO CERTIFY THAT ITS ACQUISITION AND HOLDING OF SUCH PREFERENCE SHARES 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 NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SIMILAR LAW). A "BENEFIT PLAN INVESTOR" INCLUDES AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA), WHETHER OR NOT IT IS SUBJECT TO TITLE I OF ERISA, A "PLAN" (AS DEFINED IN SECTION 4975(e)(1) OF THE CODE), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY, AND AN INSURANCE COMPANY GENERAL ACCOUNT ANY OF THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA (AND A WHOLLY OWNED SUBSIDIARY OF SUCH GENERAL ACCOUNT).

NO TRANSFER OF A PREFERENCE SHARE 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 THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY

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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 BE MADE TO A TRANSFEREE THAT IS NEITHER (I) A QUALIFIED INSTITUTIONAL BUYER NOR (II) AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(a) UNDER THE SECURITIES ACT THAT IS ALSO A PERSON (OTHER THAN ANY RATING ORGANIZATION RATING THE ISSUER'S SECURITIES) INVOLVED IN THE ORGANIZATION OR OPERATION OF THE ISSUER OR AN AFFILIATE, AS DEFINED IN RULE 405 UNDER THE SECURITIES ACT, OF SUCH A PERSON (A "PERMITTED EQUITY INVESTOR"), (C) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (D) SUCH TRANSFER IS MADE TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, EXCEPT TO A BENEFIT PLAN INVESTOR 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 ANY SUCH LAW OR SUCH SIMILAR LAW) OR TO A CONTROLLING PERSON AND ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, THE 25% THRESHOLD WOULD NOT HAVE BEEN EXCEEDED, (E) 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) OR (F) SUCH TRANSFER WOULD BE MADE TO A PERSON THAT 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 REQUIRED TO CERTIFY EITHER (X) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS PREFERENCE SHARE WILL NOT BE) A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON OR (Y) 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 LAW OR SUCH SIMILAR LAW).

THE PREFERENCE SHARES REPRESENTED HEREBY 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 (X) IS NOT BOTH (I) (A) A QUALIFIED INSTITUTIONAL BUYER OR (B) A PERMITTED EQUITY INVESTOR THAT IS ENTITLED TO TAKE DELIVERY OF SUCH PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (II) A QUALIFIED PURCHASER (IN THE CASE OF A PERSON ACQUIRING A PREFERENCE SHARE) AND/OR (Y) EXCEPT AS OTHERWISE PERMITTED UNDER THE PREFERENCE SHARE

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PAYING AGENCY AGREEMENT, IS OR BECOMES A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON AND DID NOT DISCLOSE IN A SUBSCRIPTION AGREEMENT OR TRANSFER CERTIFICATE THAT IT WAS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON THE ISSUER (OR THE COLLATERAL ADVISOR ON ITS BEHALF) SHALL REQUIRE, BY NOTICE TO SUCH HOLDER THAT SUCH HOLDER SELL ALL OF ITS RIGHT AND TITLE IN OR TO THIS PREFERENCE SHARE TO A PERSON THAT (1) IS BOTH (A) EITHER (X) A QUALIFIED INSTITUTIONAL BUYER OR (Y) A PERMITTED EQUITY INVESTOR THAT IS ENTITLED TO TAKE DELIVERY OF SUCH PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (B) A QUALIFIED PURCHASER AND (2) IN ALL CASES, IS 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 (OR THE COLLATERAL ADVISOR ON ITS BEHALF), THE PREFERENCE SHARE PAYING AGENT SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH HOLDER TO, CAUSE SUCH HOLDER'S 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 (I) IS BOTH (1)(A) A QUALIFIED INSTITUTIONAL BUYER OR (B) A PERMITTED EQUITY INVESTOR THAT IS ENTITLED TO TAKE DELIVERY OF SUCH PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (2) A QUALIFIED PURCHASER (IN THE CASE OF A PERSON HOLDING PREFERENCE SHARES) AND (II) IN ALL CASES, IS NOT A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE PREFERENCE SHARE HELD BY SUCH HOLDER, AND 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.

Investor Representations on Resale. Except as provided below, each transferee of a Security will be required to deliver to the Co-Issuers and the Secured Note Registrar, the Subordinate 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, the Fiscal Agency Agreement 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, the Fiscal Agent 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

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accordance with Rule 904 of Regulation S may be made only upon provision to the Secured Note Registrar or the Subordinate Note Registrar, as applicable, of written certification from the transferee and transferor in the form provided for in the Indenture or the Fiscal Agency Agreement. An owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification if the transferee is both a Qualified Institutional Buyer and a Qualified Purchaser.

Each transferee of a beneficial interest in a Regulation S Global Note or Restricted Global Note will be deemed to make the same representations and warranties at the time of purchase that a transferee of a Note 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 purchaser of a Subordinate Note and each transferee thereof will be required to represent, warrant and agree that it is not and will not be a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA (and a wholly owned subsidiary of such a general account).

No Subordinate Notes may be transferred to a transferee acquiring a Subordinate Note unless the transferee executes and delivers to the Issuer and the Fiscal Agent a transfer certificate in the form attached as an exhibit to the Fiscal Agency Agreement to the effect that such purchaser is not a Benefit Plan Investor.

Each transferee of a 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 or the Fiscal Agent, as applicable as to the matters set forth in each of paragraphs (1) through (18) above, as applicable to the Notes or Preference Shares, 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 Secured Note), the Fiscal Agent (in the case of a Subordinate 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 both 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 Securities for its own account. In the case of a transferee who takes delivery of a Preference Share, unless such transfer is effected in accordance with another exemption from the

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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, 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 (or as agent on behalf of a client account); (iii) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Notes while it is in the United States or any of its territories or possessions; (iv) understands that such Notes 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 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; and (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. 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 Agency Agreement.

(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 Secured Note), the Fiscal Agent (in the case of a Subordinate Note) or the Preference Share Paying Agent (in the case of a Preference Share) for the purpose of determining its eligibility to purchase 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 Securities.

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LISTING AND GENERAL INFORMATION

1. Application will be made to the Irish Stock Exchange for the Offered Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. 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 Offered Notes on any other stock exchange.

2. For as long as the Offered Notes are listed on the Irish Stock Exchange, 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 Deed of Covenant, the Fiscal Agency Agreement, the Collateral Advisory Agreement, the Initial Hedge 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, in electronic or physical form, and will be obtainable 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. 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 Indenture 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 governmental, legal or arbitration proceedings relating to claims on amounts which may have or have had a significant effect on the Co-Issuers' financial position or profitability in the context of the issuance of the Securities, nor, so far as such Co-Issuer is aware, is any such governmental, legal 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 declared any dividends, except for the transactions described herein relating to the issuance of the Securities.

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6. The Offered Notes 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 Global Note CUSIP Numbers	Restricted Global Note CUSIP Numbers	Regulation S International Securities Identification Numbers
Class A-1A Notes	G5298EAA0	49858TAA4	USG5298EAA04
Class A-1B Notes	G5298EAF9	49858TAL0	USG5298EAF90
Class A-2 Notes	G5298EAB8	49858TAC0	USG5298EAB86
Class B Notes	G5298EAC6	49858TAE6	USG5298EAC69
Class C Notes	G5298EAD4	49858TAG1	USG5298EAD43

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 Advisor will be passed upon for the Collateral Advisor by Dechert LLP.

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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 and CDO Obligations with a Moody's Asset Correlation of 15% or more

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 and CDO Obligations with a Moody's Asset Correlation less than 15%

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, a CMBS, an ABS REIT Debt Security, a Project Finance Security, a future flow security, a market value CDO Obligation, a Form Approved Synthetic 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 Ratings 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, a CMBS, an ABS REIT Debt Security, a Project Finance Security, a future flow security, a market value CDO Obligation, a Form Approved Synthetic 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 Ratings 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%

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C. If the Collateral Debt Security is a CMBS, 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+"	45.0%	50.0%	55.0%	60.0%	65.0%	70.0%	75.0%
"BB-," "BB" or "BB+"	35.0%	40.0%	45.0%	45.0%	50.0%	50.0%	50.0%
"B-," "B" or "B+"	20.0%	25.0%	30.0%	35.0%	35.0%	40.0%	40.0%
"CCC+" and below	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
NR	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

D. If the Collateral Debt Security is a Project Finance Security, a future flow security, a market value CDO Obligation or a Synthetic Security, the recovery rate will be assigned by Standard & Poor's upon the acquisition of such Security by the Issuer. A Form Approved Synthetic Security that is a Single Obligation Synthetic Security will have the recovery rate applicable to the related Reference Obligation.

E. 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) 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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Exhibit A

GLOSSARY OF CERTAIN DEFINED TERMS

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

"Accredited Investor" means an "accredited investor" (as such term is defined in Rule 501(a) under the Securities Act).

"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 Advisor in respect of fees, indemnities and expenses pursuant to the Collateral Advisory 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, the Placement Agent and their Affiliates in respect of amounts payable to each of them 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 or the Fiscal Agency Agreement and the documents delivered pursuant to or in connection with the Indenture or the Fiscal Agency Agreement and the Notes and (viii) any exchange or any listing agent or paying agent appointed in connection with the listing of the Notes or the Preference Shares on any exchange; *provided* that Administrative Expenses shall not include (A) except as otherwise provided herein, 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 or the Trustee Fee, (C) any Advisory Fee payable to the Collateral Advisor and (D) amounts payable under any Hedge Agreement.

"Advisory Fee" means the fee payable to the Collateral Advisor (unless the Collateral Advisor is Strategos or an Affiliate thereof in which case no Advisory Fee shall be payable) in arrears on each Distribution Date pursuant to the Collateral Advisory Agreement, in an amount equal to 0.03% *per annum* of the Average Monthly Asset Amount for such Distribution Date, calculated on the basis of a 360-day year consisting of twelve 30-day months; *provided* that the Advisory 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 as described herein and only in the event that the Collateral Advisor is not Strategos or an Affiliate thereof. Any

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accrued but unpaid Advisory Fee will be deferred. Any unpaid Advisory 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 Advisor) shall be paid on the next succeeding Distribution Date(s) to the extent that funds are available for such purpose in accordance with the Priority of Payments until paid in full and shall not accrue interest (and, if not paid on such immediately following Distribution Date, on one or more Distribution Dates thereafter). Any accrued Advisory Fee remaining unpaid on resignation or removal of a successor Collateral Advisor shall continue to be due to the removed or resigning (as applicable) Collateral Advisor notwithstanding such resignation or removal.

"Affiliate" means, with respect to any person, (i) any other person who, directly or indirectly, is in control of, or controlled by, or is under common control with, such person or (ii) any other person who is a director, officer or employee (a) of such person, (b) of any subsidiary or parent company of such person or (c) of any person described in clause (i) above. For the purposes of this definition, "control" of a person shall mean the power, direct or indirect, (i) to vote more than 50% of the securities having ordinary voting power for the election of directors of such person, or (ii) to direct or cause the direction of the management and policies of such person whether by contract or otherwise. 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.

"Aggregate Amortized Cost" means, with respect to any Interest-Only Security, (a) on the date of acquisition thereof by the Issuer, the cost of purchase thereof and (b) on any date thereafter, the present value of all remaining payments on such security discounted to such date of determination as of each subsequent Distribution Date at a discount rate per annum equal to the internal rate of return on such security as calculated in good faith and in the exercise of reasonable business judgment by the Collateral Advisor at the time of acquisition thereof by the Issuer.

"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, the Aggregate Outstanding Amount of any Class D Notes or Class E Notes at any time shall include the Class D Deferred Interest Amount or the Class E Deferred Interest Amount with respect to such Notes at such time.

"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.

"Alternative Spread" means, if SLHT certifies to the Trustee that it is the beneficial owner of 100% of the Class D Notes, the spread specified by SLHT in a notice to the Trustee at least two Business Days prior to the commencement of any Interest Period, to which spread any Financing Party and the Holders of 100% of the Class D Notes have given their written consent.

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"Applicable Recovery Rate" means, with respect to any Collateral Debt Security on any Measurement Date, the lower 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 in (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; and (b) an amount equal 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 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) for purposes of determining the "Calculation Amount" of a Defaulted Security or Deferred Interest PIK Bond, the column in such table below the then-current rating of the most senior Class of Notes outstanding and, for purposes of determining the "Standard & Poor's Recovery Rate" in connection with the Standard & Poor's Minimum Recovery Rate Test, the column in such table below the rating of the applicable Class of Notes.

"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 (a) 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 or (b) real estate mortgages, either static or revolving, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities; *provided* that, in the case of clause (b), such Asset-Backed Securities do not entitle the holders to a right to share in the appreciation in value of or the profits generated by the related real estate assets.

"Available Redemption Funds" means Sale Proceeds and termination payments to be made to the Issuer under the Hedge Agreements, 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 Reserve Account, the Semi-Annual Interest Reserve Account, the Quarterly Interest Reserve Account, the Expense Account and the Payment Accounts (other than the Hedge Counterparty Collateral Account).

"Available Reinvestment Funds" means, during the Reinvestment Period, (i) any CDS Sale Proceeds received by the Issuer (unless CDS Sale Proceeds in an amount equal to the Sale Proceeds Reinvestment Limit have been previously reinvested during the applicable 12 month period), until the 60th calendar day following receipt of such CDS Sale Proceeds and (ii) any Collateral Principal Payment received by the Issuer, until the 60th calendar day following receipt of such Collateral Principal Payment; *provided* that, to the extent that the Cash Release Conditions are satisfied, CDS Sale Proceeds and Collateral Principal Payments will be distributed as Principal Proceeds or Interest Proceeds, as applicable, and will not be considered Available Reinvestment Funds.

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"Average Monthly 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. For the purpose of calculating the Advisory Fee, the Average Monthly Asset Amount will be calculated as if the principal of each Interest-Only Security were equal to the Aggregate Amortized Cost thereof.

"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 primary 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 LaSalle 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.

"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 one month 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.

"Business Day" means a day on which commercial banks are open for business in each of New York, New York, London 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 that 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.

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"Cash Release Conditions" means that, within five Business Days after the Issuer received a Collateral Principal Payment or CDS Sale Proceeds, as applicable, Collateral Advisor has determined and notified the Trustee that reinvestment of such payment or proceeds in Substitute Collateral Debt Securities (i) would not at such time be practicable on commercially reasonable terms or (ii) would decrease compliance with the Class A/B/C Overcollateralization Test or with any Collateral Quality Test.

"CDS Sale Interest Proceeds" means CDS Sale Proceeds consisting of accrued interest if, within five Business Days after the Issuer received such CDS Sale Proceeds consisting of accrued interest, the Collateral Advisor has determined and notified the Trustee that it will reinvest such proceeds in Substitute Collateral Debt Securities in accordance with the restrictions on reinvestment of CDS Sale Proceeds set forth in the Indenture.

"CDS Sale Proceeds" means Sale Proceeds received upon the sale of Defaulted Securities, Equity Securities, Credit Risk Securities, Written Down Securities or Withholding Tax Securities.

"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-1A Notes *plus* (ii) the Aggregate Outstanding Amount of the Class A-1B Notes *plus* (iii) 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 Determination Date is equal to or greater than 106.84%.

"Class A/B/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 (4) of the Principal Proceeds Waterfall *multiplied by* (b) the Aggregate Outstanding Amount of the Class A Notes, Class B Notes and 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 (4) of the Principal Proceeds Waterfall) *divided by* (c) the Aggregate Outstanding Amount, excluding any Class D Deferred Interest Amount and Class E Deferred Interest Amount for purposes of this calculation, of the Class A Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (4) of the Principal Proceeds Waterfall).

"Class A-1A Par Value 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 Aggregate Outstanding Amount of the Class A-1A Notes. The Class A-1A Par Value Ratio will not apply prior to the Ramp-Up Completion Date.

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"Class D Collateral" means (a) the Class D Note Payment Account, (b) all Cash and investments in the Class D Note Payment Account and (c) all amounts which have been released from the lien of the Indenture for payment to the Fiscal Agent for distributions on the Class D Notes.

"Class D Deferred Interest Amount" means so long as any Class A-1A Notes, Class A-1B Notes, Class A-2 Notes, Class B Notes or Class C Notes are outstanding, 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.

"Class D Noteholder" means the person in whose name a Class D Note is registered in the Subordinate Note Register.

"Class D Note Payment Account" means the account designated the "Class D Note Payment Account" and established in the name of the Fiscal Agent pursuant to the Fiscal Agency Agreement.

"Class D 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 (7) of the Principal Proceeds Waterfall *multiplied by* (b) the Aggregate Outstanding Amount of the Class D Notes excluding any Class D Deferred Interest Amount (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (7) of the Principal Proceeds Waterfall) *divided by* (c) the Aggregate Outstanding Amount, excluding any Class D Deferred Interest Amount and Class E Deferred Interest Amount for purposes of this calculation, of the Class D Notes and Class E Notes (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (7) of the Principal Proceeds Waterfall).

"Class D/E/Preference Share Redemption Date Amount" means the amount required (after taking into account any payments of interest, principal, Redemption Price, dividends or other distributions made or to be made to the holders of the Subordinate Notes and 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 Fiscal Agent for distribution to the Subordinate Notes and to the Preference Share Paying Agent for distribution to the Preference Shareholders, the IRR on the Subordinate Notes and the Preference Shares (treated for this purpose as a single investment), in the aggregate, is not less than (i) 7.0% for the period from the Closing Date to such Distribution Date, with respect to any Distribution Date on or after the Distribution Date in August 2014 and on or prior to the Distribution Date in July 2016, (ii) 4.0% for the period from the Closing Date to such Distribution Date, with respect to any Distribution Date on or after the Distribution Date in August 2016 and on or prior to the Distribution Date in July 2018 and (iii) 2.0% for the period from the Closing Date to such Distribution Date, with respect to any Distribution Date on or after the Distribution Date in August 2018. For the avoidance of doubt, the calculation of the IRR will take into account all of the distributions made on the Subordinate Notes and the Preference Shares from the Closing Date to (and including) the applicable Redemption Date, regardless of

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when (i) a holder of the Subordinate Note first purchased its Subordinate Note or (ii) a Preference Shareholder first purchased its Preference Shares.

"Class E Collateral" means (a) the Class E Note Payment Account, (b) all Cash and investments in the Class E Note Payment Account and (c) all amounts which have been released from the lien of the Indenture for payment to the Fiscal Agent for distributions on the Class E Notes.

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

"Class E Noteholder" means the person in whose name a Class E Note is registered in the Subordinate Note Register.

"Class E Note Payment Account" means the account designated the "Class Note Payment Account" and established in the name of the Fiscal Agent pursuant to the Fiscal Agency Agreement.

"CMBS Conduit Securities" means Asset-Backed Securities (A) issued by a single-seller or multi-seller conduit under which the holders of such Asset-Backed Securities have recourse to a specified pool of assets (but not other assets held by the conduit that support payments on other series of securities) and (B) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of commercial mortgage loans generally having the following characteristics: (1) the commercial mortgage loans have varying contractual maturities; (2) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the commercial mortgage loans are obligations of a relatively limited number of obligors (with the creditworthiness of individual obligors being less material than for CMBS Large Loan Securities and Credit Tenant Lease Securities) and accordingly represent a relatively undiversified pool of obligor credit risk; (4) upon original issuance of such Asset-Backed Securities no 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).

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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.

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

"CMBS Single Property 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 one or more commercial mortgage loans made to finance the acquisition, construction and improvement of a single property. 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 or leases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; and (4) 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.

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"Collateral Debt Security" means (i) any RMBS Security or (ii) any CMBS Security.

"Collateral Principal Payments" means Principal Proceeds other than Sale Proceeds and Uninvested Proceeds and any amounts received in respect of Eligible Investments purchased with Sale Proceeds or Uninvested Proceeds.

"Collateralization Event" means, in respect of any Hedge Counterparty the occurrence of any event defined in the applicable Hedge Agreement as a "Collateralization Event" thereunder, which generally means the failure by the Hedge Counterparty to satisfy the Hedge Counterparty Ratings Requirement.

"Controlling Class" means the Class A-1A Notes or, if there are no Class A-1A Notes outstanding, *then* the Class A-1B Notes or, if there are no Class A-1B Notes outstanding, *then* the Class A-2 Notes or, if there are no Class A-2 Notes outstanding, *then* the Class B Notes or, if there are no Class B Notes outstanding, *then* the Class C Notes or, if there are no Class C Notes outstanding, *then* the Class D Notes or, if there are no Class D Notes outstanding, *then* the Class E Notes.

"Controlling Person" means 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).

"Credit Risk Event" means, with respect to any Collateral Debt Security, (i) if a Note Downgrade Event shall have occurred and be continuing, (A) such Collateral Debt Security has been put on watch for possible downgrade, or has been downgraded, by any Rating Agency or (B) such Collateral Debt Security has experienced an increase in credit spread of 10% or more (due to credit related reasons as determined by the Collateral Advisor in its reasonable business judgment) compared to the credit spread at which such Collateral Debt Security was purchased by the Issuer, determined by reference to an applicable index selected by the Collateral Advisor or (ii) if no Note Downgrade Event shall have occurred and be continuing, there has been an event or circumstance that constitutes a change in the condition of the issuer of such Collateral Debt Security (or of available information with respect to such issuer) that evidences, in the reasonable business judgment of the Collateral Advisor, (A) a significant risk of such Collateral Debt Security materially declining in credit quality and(B) a significant risk, with a lapse of time, of such Collateral Debt Security becoming a Defaulted Security or a Written Down Security.

"Credit Risk Security" means any Collateral Debt Security with respect to which there shall have occurred a Credit Risk Event.

"Current Interest Rate" means, as of any date of determination, (i) with respect to any Fixed Rate Security (other than a Hybrid Security), the stated rate at which interest accrues on such Fixed Rate Security, (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, and (iii) with respect to any Hybrid Security prior to the Reset Date, the rate at which interest is payable on such Hybrid Security.

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"Current Spread" means, as of any date of determination, (a) with respect to any Floating Rate Security (other than a Hybrid 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, (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 and (c) with respect to any Hybrid Security after the Reset Date, the Current Spread (as determined by the Collateral Advisor on behalf of the Issuer pursuant to the next sentence). For the purpose of this definition, in the case of a Floating Rate Security which does not provide for the payment of interest based on a stated spread over the London interbank offered rate or a Hybrid Security after the Reset Date, the Collateral Advisor shall determine (and inform the Issuer and the Trustee of) the Current Spread as the difference between the applicable interest rate payable on such Collateral Debt Security and LIBOR, with LIBOR to be determined as set forth under "Description of the Notes—Interest—LIBOR" or, if the Collateral Advisor determines that it more accurately reflects the rate applicable to the security, to be determined as if such Floating Rate Security or Hybrid Security after the Reset Date were a Note and using an Interest Period based on the terms of such Floating Rate Security or Hybrid Security after the Reset Date.

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

"Deemed Fixed/Floating Rate Hedge Agreement" means a Deemed Fixed Rate Hedge Agreement or a Deemed Floating Rate Hedge Agreement.

"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 the interest rate of which is hedged into a Fixed Rate Security pursuant to the terms thereof.

"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 the London interbank offered rate 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 under the applicable Deemed Fixed Rate Hedge Agreement.

"Deemed Floating Rate" means, with respect to a Deemed Floating Rate Security, the floating rate in excess of or less than the London interbank offered rate that the relevant

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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 Deemed 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 Fixed Rate Security the interest rate of which is hedged into a Floating Rate Security pursuant to the terms thereof.

"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.

"Default" means any Indenture Event of Default or Fiscal Agency Agreement Event of Default or any occurrence that, with notice or the lapse of time or both, would become an Indenture Event of Default or Fiscal Agency Agreement Event of Default.

"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, Class B Notes or Class C Notes are outstanding, the Class D Deferred Interest Amount will not constitute Defaulted Interest. So long as any Class A Notes, Class B Notes, Class C Notes or Class D Notes are outstanding, the Class E Deferred Interest Amount will not constitute Defaulted Interest.

"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 Advisor 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 in accordance with its Underlying Instruments, 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 is cured;

(3) as to which the Collateral Advisor knows the issuer thereof is in default (without giving effect to any applicable grace period or waiver) as to payment (if, in the

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Collateral Advisor'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;

(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 Advisor, 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), (26) and (35) of the Eligibility Criteria at the time of acquisition thereof;

(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 watch list 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; or

(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.

The Collateral Advisor shall be deemed to have knowledge only of information actually received by any portfolio manager employed by the Collateral Advisor who performs portfolio management or advisory functions for the Issuer or by any credit analyst who performs credit analysis functions for such portfolio manager with respect to the Issuer, and shall be responsible under the Collateral Advisory Agreement (to the extent provided therein) for obtaining and reviewing information available to it (except to the extent that any such information has been withheld from the Collateral Advisor by the Trustee, the Collateral Administrator or the Issuer). Notwithstanding the foregoing, the Collateral Advisor may declare any Collateral Debt Security to be a Defaulted Security if, in the Collateral Advisor'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 Advisor 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 Advisor's internal policies relating to confidential communications or (b) material non-public information.

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"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 Overcollateralization Tests, the Class A-1A Par Value Ratio and the Class A Sequential Pay 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 a Subordinated Termination Event.

"Designated Maturity" means with respect to each Class of Notes, (i) for the first Interest Period, the number of calendar days from, and including the Closing Date to, but excluding, the first Distribution Date, (ii) for each Interest Period after the first Interest Period (other than the Interest Period ending in November 2046) one month and (iii) for the Interest Period ending in November 2046, the number of calendar days from, and including, the first day of such Interest Period to, but excluding, the final Distribution Date.

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

"Discount Haircut Amount" means, with respect to any Discount Security, an amount equal to the greater of (a) zero and (b)(i) the principal amount or certificate balance of such Collateral Debt Security *minus* (ii) the cost to the Issuer (exclusive of accrued interest) of such Discount Security *minus* (iii) an amount equal to (A) all principal payments received by the Issuer with respect to such Discount Security *multiplied by* (B) a fraction the numerator of which is the cost to the Issuer (exclusive of accrued interest) and the denominator of which is the principal amount or certificate balance of such Discount Security at the time of the acquisition thereof by the Issuer.

"Discount Security" means a Collateral Debt Security (other than an Interest-Only Security) purchased at a cost to the Issuer (exclusive of accrued interest) of: (x) if such Collateral Debt Security is a Floating Rate Security and has a Moody's Rating of "Aa3" or higher at the time it is acquired by the Issuer, less than 92.0% of the principal amount thereof; provided that a Collateral Debt Security shall cease to constitute a "Discount Security" for purposes of this clause(x) if the fair market value thereof equals or exceeds 95.0% of its outstanding principal amount for four consecutive bi-weekly valuation dates following the initial valuation date on which such percentage was equaled or exceeded; (y)if such Collateral Debt Security is a Fixed Rate Security has a Moody's Rating of "Aa3" or higher at the time it is acquired by the Issuer, less than 85.0% of the principal amount thereof; provided that a Collateral Debt Security shall cease to constitute a "Discount Security" for purposes of this clause (y) if the fair market value thereof equals or exceeds 90.0% of its outstanding principal amount for four consecutive bi-weekly valuation dates following the initial valuation date on which such percentage was equaled or exceeded; and (z) for any Collateral Debt Security not described in clauses(x) and (y), less than 75.0% of the principal amount thereof; provided that a Collateral Debt Security shall cease to constitute a "Discount Security" for purposes of this clause(z) if the fair market value

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thereof equals or exceeds 85.0% of its outstanding principal amount for four consecutive bi-weekly valuation dates following the initial valuation date on which such percentage was equaled or exceeded.

"Due Period" means with respect to any Distribution Date, each period from, but excluding, the 25th day of the calendar month that ends immediately prior to the immediately preceding Distribution Date to, and including, the 25th day of the calendar month that ends immediately prior to the month in which such Distribution Date occurs or, if such date is not a Business Day, the immediately following Business Day (and if the last day of a Due Period is so adjusted, the succeeding Due Period shall commence on the day immediately following the last day of such Due Period), except that (a) the initial Due Period will commence on, and include, the Closing Date and (b) the final Due Period will end on, and include, the day preceding the Stated Maturity of the Notes. 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 or a Business Day under the Indenture shall be considered included in collections received during such Due Period; *provided* that such amounts are received no later than the second Business Day preceding the Distribution Date. The "Distribution Date" relating to any Due Period shall be the Distribution Date that next succeeds the last day of such Due Period.

"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 Advisor 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 (including LaSalle Bank National Association) 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 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 (or "A-1" with respect to overnight investments offered or managed by LaSalle Bank National Association, for so long as LaSalle Bank National Association is the Trustee) 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-

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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 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);

(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 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 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 of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's;

(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;

(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; *provided* that 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 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);

(g) Registered reinvestment agreement issued or unconditionally guaranteed by any bank, or a Registered reinvestment agreement issued or unconditionally guaranteed by any insurance company or a Registered reinvestment agreement issued or unconditionally guaranteed by any other corporation or entity (if treated as debt by the issuer), in each case, that (i) 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 or (ii) if such security has a maturity of longer than 91 days, has at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and 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

(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

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"AAAm" by Standard & Poor's; *provided* that such fund or vehicle is formed and has its principal office within the United States;

and, in each case (other than clause (a) or (h)), with a stated maturity or, in the case of clause (g), a withdrawal date (in each case giving effect to any applicable grace period) no later than the Business Day immediately preceding the Distribution Date next following the Due Period in which the date of investment occurs; *provided* that Eligible Investments may not include (i) any mortgaged-backed security, (ii) any security that does not provide for payment or repayment of a stated principal amount in one or more installments, (iii) any security purchased at a price in excess of 100% of the par value thereof, (iv) 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, (v) 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, vi) 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, (vii) any security whose rating by Standard & Poor's includes the subscript "r," "t," "p," "pi" or "q," (viii) any security that is subject to an Offer, (ix) any security that the Collateral Advisor determines (in accordance with the Collateral Advisory Agreement) to be subject to substantial non-credit-related risk or (x) any Interest-Only Securities; *provided further* that, if any of the rating requirements set forth in clauses (c), (d), (e), (f) or (g) above are not satisfied, such investment will qualify as an Eligible Investment upon satisfaction of the Rating Condition with respect to the applicable Rating Agency. Eligible Investments may be obligations of, and may be purchased from, the Trustee and its Affiliates, and may include obligations for which the Trustee or an Affiliate thereof receives compensation for providing services.

"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.

"Excepted Property" means (a) the U.S.$250 of capital contributed by the owners of the Issuer's ordinary shares in accordance with the Preference Share Documents and U.S.$250 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, (b) the Class D Note Payment Account, (c) the Class E Note Payment Account and (d) the Preference Share Distribution Account.

"Expense Year" means each 12-month period commencing on the Business Day following an August Distribution Date (or in the case of the first Expense Year, the Closing Date) and ending on the following August Distribution Date.

"Financing Party" means a party identified in a notice from SLHT to the Trustee as providing financing or as having entered into a repurchase transaction with SLHT with respect to the Class D Notes.

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"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.

"Fixed Rate Excess" as of any Measurement Date, means 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 (x) on the Ramp-Up Completion Date, 5.85% and (y) on any Measurement Date after the Ramp-Up Completion Date, 5.25% 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).

"Fixed Rate Notes" means the Class E Notes.

"Fixed Rate Security" means any Collateral Debt Security other than (i) a Floating Rate Security, (ii) a Deemed Floating Rate Security and (iii) a Hybrid Security at any time after the applicable Reset Date.

"Floating Rate Notes" means the Notes other than the Fixed Rate Notes.

"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, including a Hybrid Security after the applicable Reset Date.

"Form-Approved Hedge Agreement" means a Deemed Fixed/Floating Rate Hedge Agreement with respect to which the related Fixed Rate Security or 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 either (i) was delivered to each Rating Agency prior to the Closing Date in connection with this transaction and not disapproved by any of the Rating Agencies or (ii) has satisfied the Rating Condition as a Form-Approved Hedge Agreement for specific use in this transaction (as certified to the Trustee by the Collateral Advisor); *provided* that, if Standard & Poor's or Moody's notifies the Trustee or the Collateral Advisor that it has withdrawn form-approved status with respect to a particular Form-Approved Hedge Agreement, then the Issuer shall no longer use such form as a Form-Approved Hedge Agreement; and *provided further* that such withdrawal of form-approved status shall not affect the status of any Hedge Agreement entered into by the Issuer using such form prior to the withdrawal of form-approved status.

"Hedge Counterparty Ratings Requirement" means with respect to the Hedge Rating Determining Party or any transferee thereof, (a) either (i) the rating of the short-term senior unsecured, unguaranteed and otherwise unsupported debt obligations of the related Hedge Rating Determining Party or such transferee is at least "A-1" by Standard & Poor's or (ii) the rating of the long-term senior unsecured, unguaranteed and otherwise unsupported debt

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obligations of the related Hedge Rating Determining Party or such transferee is at least "A+" by Standard & Poor's if the related Hedge Rating Determining Party does not have a short-term rating or (b)(i) if the related Hedge Rating Determining Party or such transferee has an unsecured, unguaranteed and otherwise unsupported long term debt rating by Moody's, the rating of the long-term senior unsecured, unguaranteed and otherwise unsupported debt obligations of the related Hedge Rating Determining Party or such transferee is at least "Aa3" (and is not on credit watch for possible downgrade) by Moody's or (ii) if the related Hedge Rating Determining Party has both a long-term and a short-term rating, (x) the rating of the unsecured, unguaranteed and otherwise unsupported long term senior debt obligations of the related Hedge Rating Determining Party or such transferee is at least "A1" (and is not on credit watch for possible downgrade) by Moody's and (y) the rating of the unsecured, unguaranteed and otherwise unsupported short-term senior debt obligations of the related Hedge Rating Determining Party or such transferee (or any affiliate of such transferee that unconditionally and absolutely guarantees the obligations of such transferee hereunder) is "P-1" (and is not on credit watch for possible downgrade) 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 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.

"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 unconditionally and absolutely guarantees (with such form of guarantee satisfying Standard & Poor's then-current criteria with respect to guarantees) the obligations of such Hedge Counterparty or such transferee, as the case may be, under such 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.

"Home Equity Loan Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from balances (including revolving balances) outstanding under loans or lines of credit secured by (but not, upon origination, by a first priority lien on) residential real estate (single or multi-family properties) the proceeds of which loans or lines of credit are not 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

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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.

"Hybrid Securities" means any RMBS Security the payments on which depend on the cashflow from a pool of residential mortgage loans a substantial portion of which bear interest at a fixed rate for a limited period of time after which they bear interest based upon a floating rate index. If the Collateral Advisor (on behalf of the Issuer) determines in accordance with the Underlying Instruments relating thereto and other customary sources that a Hybrid Security is passing through interest primarily based on a floating rate (and the Collateral Advisor may determine this based on the weighted average roll date), the Collateral Advisor (on behalf of the Issuer) shall provide notice to the Trustee that such Hybrid Security shall no longer be a Fixed Rate Security and such Hybrid Security shall be a Floating Rate Security and the Collateral Advisor shall notify the Trustee from time to time of the Current Spread applicable to such security.

"Interest Distribution Amount" means, with respect to any Class of Notes and any Distribution Date, the sum of (a) the aggregate amount of interest accrued at the annual rate at which interest accrues on the Notes of 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* (b) any Defaulted Interest in respect of the Notes of such Class and accrued interest thereon.

"Interest Excess" means the lesser of (a) U.S.$1,000,000 and (b) the excess, if any, of (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 on deposit in the Collection Accounts on the Ramp-Up Completion Date over (ii) U.S.$1,000,000,000.

"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 Period" means in the case of any Class of Notes, (i) the period from, and including, the Closing Date to, but excluding, the first Distribution Date and (ii) thereafter, the period from, and including, the Distribution Date immediately following the last day of the immediately preceding Interest Period to, but excluding, the next succeeding Distribution Date; *provided* that if the nominal Distribution Date is not a Business Day and the Distribution Date has been deemed to be the next succeeding Business Day, (a) with respect to any Fixed Rate Notes, no interest shall accrue from the period beginning on the nominal Distribution Date, as applicable, and ending on the deemed Distribution Date and (b) with respect to the Floating Rate Notes, interest shall accrue for the period beginning on the nominal Distribution Date and ending on the deemed Distribution Date.

"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 interest

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on Defaulted Securities, Deferred Interest PIK Bonds and interest on Written Down Amounts) received in cash by the Issuer during such Due Period (excluding amounts required to be deposited into the Semi-Annual Interest Reserve Account or the Quarterly Interest Reserve Account); (2) all accrued interest (other than CDS Sale Interest Proceeds) 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 Amounts in excess of the greater of the applicable portion of the original purchase price paid by the Issuer or the applicable 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 Period on investments in any Account (except interest on investments in any Hedge Counterparty Collateral Account) and all payments of principal, including repayments, received in cash by the Issuer prior to the Distribution Date next following such Due Period 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 Written Down Amounts and yield maintenance payments, in each case, included in Principal Proceeds pursuant to clause (5) or (7) of the definition thereof); (5) all amounts on deposit in the Expense Account, the Semi-Annual Interest Reserve Account, the Quarterly Interest Reserve Account and the Reserve Account that are transferred to the Payment Account for application as Interest Proceeds; (6) on the earlier of the first Distribution Date (unless there has been a Rating Confirmation Failure) and the first Distribution Date following a Rating Confirmation, Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the related Determination Date or the Ramp-Up Completion Date, as applicable, in an amount equal to the Interest Excess; (7) 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; and (8) any amounts received in respect of Negative Amortization Capitalization Amounts for such Due Period; *provided* that (A) 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, (B) for purposes of clause (8) of this definition, at any time when any Negative Amortization Capitalization Amounts have accrued on a Negative Amortization Security, (x) first, unscheduled payments of principal in respect thereof and (y) second (but only if the related payment report delivered to investors indicates that the aggregate Negative Amortization Capitalization Amount (if any) in respect thereof has remained the same or decreased in the related reporting period), scheduled payments of principal in respect thereof shall be deemed to be applied to the reduction of such aggregate Negative Amortization Capitalization Amount and therefore constitute "Interest Proceeds" for purposes of this definition until such aggregate Negative Amortization Capitalization Amount has been reduced to zero, (C) any CDS Sale Interest Proceeds which have not been reinvested in Substitute Collateral Debt Securities by the 60th day after receipt thereof by the Issuer shall be deemed to be Interest Proceeds if such 60th day occurs in the Due Period related to the Distribution Date, (D) if the Interest Proceeds for the applicable Due Period will be insufficient to pay, on the Distribution

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Date, all accrued interest owed by the Issuer on the Notes and any other amounts required to be paid pursuant to clauses (1) through (15) of the Interest Proceeds Waterfall, any CDS Sale Interest Proceeds shall be deemed to be Interest Proceeds with respect to such Distribution Date to the extent necessary to pay such shortfall and (E) any CDS Sale Interest Proceeds shall be deemed to be Interest Proceeds on a Distribution Date if the Cash Release Conditions have been satisfied during the applicable Due Period with respect to such CDS Sale Interest Proceeds. 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.

"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.

"IRR" means, with respect to each Distribution Date, the rate of return on the Subordinate Notes and the Preference Shares (treated as a single investment for this purpose) that would result in a net present value of zero, assuming (a) the original aggregate principal amount of the Subordinate Notes and the original aggregate Notional Amount of the Preference Shares is an initial negative cash flow on the Closing Date and all distributions, if any, to the Fiscal Agent (for distribution to the holders of the Subordinate Notes) and 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 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.

"Issue" of Collateral Debt Securities means Collateral Debt Securities issued by the same issuer, secured by the same collateral pool.

"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 Advisor) of (i) the current duration of such Fixed Rate Security (calculated by the Collateral Advisor on a commercially reasonable basis in accordance with the standard of care set forth in the Collateral Advisory 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.

"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.

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"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.

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

"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) any date during the Reinvestment Period on which the Issuer acquires a Collateral Debt Security; and (f) with reasonable prior notice to the Issuer, the Collateral Advisor 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.

"Monthly Asset Amount" means, with respect to (i) the first Distribution Date, the average of the Net Outstanding Portfolio Collateral Balance as of the first day and the last day of the related Due Period, and (ii) any other Distribution Date, the Net Outstanding Portfolio Collateral Balance as of the first day of the related Due Period.

"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.

"Moody's Weighted Average Recovery Rate" means 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, other than Defaulted Securities or Deferred Interest PIK Bonds.

"Negative Amortization Capitalization Amount" means, with respect to any Negative Amortization Security and any specified period of time, the aggregate amount of accrued interest thereon that has been capitalized as principal pursuant to the related Underlying Instruments during such period, as the same may be reduced from time to time pursuant to and in accordance with the related Underlying Instruments.

"Negative Amortization Haircut Amount": means, with respect to any Negative Amortization Security on any date of determination, the excess (if any) of (a) the Negative Amortization Capitalization Amount therefor (if any) as of the date of determination over (b) the sum of (i) 5.0% of the original principal amount of such Negative Amortization Security upon issuance and (ii) the amount by which such Negative Amortization Security has already been haircut pursuant to the operation of clauses (f) and (g) of the definition of "Principal Balance"

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(taking into account the proviso to the definition of "Negative Amortization Security" below in the case of such clauses (f) and (g) of the definition of "Principal Balance").

"Negative Amortization Security" means an RMBS Security which (a) permits the related mortgage loan or mortgage loan obligor for a specified period of time to make no repayments of principal and payments of interest in amounts that are less than the interest payments that would otherwise be payable thereon based upon the stated rate of interest thereon, (b) to the extent that interest proceeds received in respect of the related underlying collateral are insufficient to pay interest that is due and payable thereon, permits principal proceeds received in respect of the related underlying collateral to be applied to pay such interest shortfall and (c) to the extent that the aggregate amount of interest proceeds and principal proceeds received in respect of the related underlying collateral are insufficient to pay interest that is due and payable thereon, permits such unpaid interest to be capitalized as principal and itself commence accruing interest at the applicable interest rate, in each case pursuant to the related Underlying Instruments; *provided* that, for purposes of determining which Collateral Debt Securities comprise the Aggregate Principal Balance in excess of the Floor Percentage, if any, for purposes of clauses (f) and (g) of the defined term "Principal Balance", the identity of the Collateral Debt Securities comprising any such excess over the Floor Percentage shall be determined by assuming that any Negative Amortization Securities that could form part of such excess will be the last Collateral Debt Securities that are added to such excess.

"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 Interest-Only Securities, 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, minus (d) solely for purposes of calculating the Net Outstanding Portfolio Collateral Balance in connection with the Class A Sequential Pay Test, for each Negative Amortization Security, the Negative Amortization Haircut Amount (if any) with respect to such Negative Amortization Security. For purposes of determining compliance with the Eligibility Criteria on or prior to the Ramp-Up Completion Date, the Net Outstanding Portfolio Collateral Balance shall equal U.S. $1,000,000,000. For purposes of showing compliance with the "Eligibility Criteria" in the monthly reports and the note valuation reports and as used in the definition of "Fair Market Value", the Net Outstanding Portfolio Collateral Balance will at all times equal U.S.$1,000,000,000.

"Non-LIBOR Floating Rate Collateral Debt Security" means a Floating Rate Security that bears interest based upon a floating rate index for Dollar-denominated obligations other than the London interbank offered rate.

"Note Downgrade Event" means any (i) reduction of the rating by Standard & Poor's or Moody's of the Class A Notes, the Class B Notes or the Class C Notes to one or more categories below the rating assigned by such Rating Agency to such Notes on the Closing Date

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or (ii) reduction of the rating by Standard & Poor's or Moody's of the Class D Notes or the Class E Notes to two or more categories below the rating assigned by such Rating Agency to such Class of Notes on the Closing Date.

"Noteholder" or "Holder" means a Secured Noteholder or a Subordinate Noteholder, as the context may require.

"Notional Amount" means, with respect to each Preference Share, U.S.$1,000.

"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.

"Original Purchaser" means an investor in a Note or Preference Share as part of the initial distribution thereof that purchases such Note or Preference Share from the Issuer, the Initial Purchaser or the Placement Agent.

"Other Administrative Expenses" means all Administrative Expenses but excluding Trustee Expenses, Rating Agency Expenses and Administrative Expenses of the Collateral Advisor.

"Overcollateralization Tests" means the Class A/B/C Overcollateralization Test and the Class D Overcollateralization Test.

"Permitted Equity Investor" means an Accredited Investor that is also a person (other than any rating organization rating the Issuer's securities) involved in the organization or operation of the Issuer or an affiliate, as defined in Rule 405 under the Securities Act, of such a person.

"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 or 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; *provided* that in no event will a Negative Amortization Security constitute a "PIK Bond" for purposes of this definition.

"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.

"Preference Share Distribution Account" means the account designated the "Preference Share Distribution Account" and established by the Preference Share Paying Agent

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in the name of the Preference Share Paying Agent for the benefit of the Preference Shareholders pursuant to the Preference Share Paying Agency Agreement.

"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 Interest-Only Security or Equity Security, unless otherwise expressly stated herein, shall be deemed to be zero;

(c) 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;

(d) solely for the purpose of calculating the Net Outstanding Portfolio Collateral Balance in connection with the Overcollateralization Tests, the Class A-1A Par Value Ratio or the Class A Sequential Pay Test, (i) the Principal Balance of any Written Down Security shall be its outstanding principal amount or certificate balance reduced by the Written Down Amount thereof (to the extent that it has not already been taken into account in the calculation of its outstanding principal amount or certificate balance) and (ii) the Principal Balance of any Discount Security shall be its principal amount or certificate balance *minus* the Discount Haircut Amount; *provided* that if (in the case of either clause (i) or clause (ii)) the principal amount or certificate balance of the applicable Collateral Debt Security is also subject to adjustment pursuant to clause (f) below, in the case of the Overcollateralization Tests or the Class A-1A Par Value Ratio, or clause (g) below, in the case of the Class A Sequential Pay Test, such Collateral Debt Security shall be reduced only pursuant to the clause of this definition of "Principal Balance" that, as of the applicable Determination Date, results in the lowest Principal Balance for that Collateral Debt Security for purposes of the Overcollateralization Tests, the Class A-1A Par Value Ratio and the Class A Sequential Pay Test;

(e) the Principal Balance of any Step-Up Bond shall not include accreted interest thereon;

(f) solely for purposes of calculating the Net Outstanding Portfolio Collateral Balance in connection with the Overcollateralization Tests or the Class A-1A Par Value Ratio, 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 equal to its outstanding principal amount or certificate balance *multiplied by* the lower "Discount Percentage" opposite the Moody's Rating or Standard & Poor's Rating applicable to such Collateral Debt Security in the following table:

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For purposes of the Overcollateralization Tests and the Class A-1A Par Value Ratio:

Moody's Rating	Discount Percentage	Floor Percentage	Standard & Poor's Rating	Discount Percentage	Floor Percentage
Ba1 or Ba2	90%	2.0%			
Ba3	90%	0%	BB+, BB or BB-	90%	5.0%
B1, B2 or B3	80%	0%	B+, B or B-	80%	0%
Below B3	50%	0%	Below B-	70%	0%

provided that:

(A) 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 Portfolio 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 the outstanding principal amount or certificate balance of such Collateral Debt Securities in excess of such Floor Percentage of the Net Outstanding Portfolio Collateral Balance;

(B) applicable Collateral Debt Securities having a Moody's Rating of "Ba1" or "Ba2" 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 Aggregate Principal Balance of Collateral Debt Securities which had a Moody's Rating of "Baa1", "Baa2" or "Baa3" when acquired by the Issuer 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 such Collateral Debt Securities; and

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

(g) solely for purposes of calculating the Net Outstanding Portfolio Collateral Balance in connection with the Class A Sequential Pay Test, 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 its outstanding principal amount or certificate balance multiplied by the lower "Discount Percentage" opposite the Moody's Rating or Standard & Poor's Rating applicable to such Collateral Debt Security in the following table:

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Moody's Rating	Discount Percentage	Floor Percentage	Standard & Poor's Rating	Discount Percentage	Floor Percentage
Ba1 or Ba2	90%	2.0%			
Ba3	90%	0%	BB+, BB or BB-	90%	5.0%
B1, B2 or B3	80%	0%	B+, B or B-	70%	0%
Below B3	50%	0%	Below B-	50%	0%

provided that:

(A) 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 Portfolio 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 the outstanding principal amount or certificate balance of the applicable Collateral Debt Securities in excess of such Floor Percentage of the Net Outstanding Portfolio Collateral Balance;

(B) applicable Collateral Debt Securities having a Moody's Rating of "Ba1" or "Ba2" 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 Aggregate Principal Balance of Collateral Debt Securities which had a Moody's Rating of "Baa1", "Baa2" or "Baa3" when acquired by the Issuer 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 such Collateral Debt Securities; and

(C) 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;

(h) the Principal Balance of a Negative Amortization Security shall be (i) the original principal amount of such Negative Amortization Security on the date of issuance thereof (which amount shall in no event be adjusted to reflect any Negative Amortization Capitalization Amounts thereon) *minus* (ii) the aggregate amount of all payments made in respect of principal thereof (excluding any payments made in respect of Negative Amortization Capitalization Amounts for any period) from and including the date of issuance thereof to but excluding such date of determination; and

(i) 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.

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

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"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 (excluding any amounts received in respect of Negative Amortization Capitalization Amounts), 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 Amounts (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 those received as a result of the sale of any Deferred Interest PIK Bond or Defaulted Security, but excluding those included in Interest Proceeds as defined above); (4) all payments of principal received in cash by the Issuer prior to the Distribution Date next following such Due Period 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 Amounts (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 Amounts received in cash by the Issuer during such Due Period and any other payments in respect thereof not addressed in clauses (1) through (8) 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) any proceeds resulting from the termination and liquidation of any Hedge Agreement (other than the portion thereof constituting accrued scheduled payments), to the extent that such proceeds exceed the cost of entering into a replacement Hedge Agreement in accordance with the requirements set forth in the Indenture; (10) all payments of interest received in cash by the Issuer during such Due Period to the extent that they represent accrued interest purchased with Principal Proceeds; (11) on the first Distribution Date, Uninvested Proceeds deposited to the Payment Account to the extent treated as Principal Proceeds in accordance with "Security for the Secured Notes—The Accounts—Uninvested Proceeds Account"; and (12) 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) that are not included in Interest Proceeds; *provided* that (i) in no event will Principal Proceeds include any Excepted Property, (ii) Collateral Principal Payments which have not been reinvested in Substitute Collateral Debt Securities by the 60th day after receipt thereof by the Issuer and any CDS Sale Proceeds which have not been reinvested in Substitute Collateral Debt Securities by the 60th day after receipt thereof by the Issuer shall be deemed to be Principal Proceeds if such 60th day occurs in the Due Period related to the Distribution Date, (iii) any Collateral Principal Payments or CDS Sale Proceeds (other than CDS Sale Interest Proceeds) shall be deemed to be

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Principal Proceeds on a Distribution Date if the Cash Release Conditions have been satisfied during the applicable Due Period, (iv) on the last day of the Reinvestment Period all Available Reinvestment Funds (other than those required to satisfy binding commitments made by the Issuer during the Reinvestment Period to purchase Substitute Collateral Debt Securities) shall be deemed to be Principal Proceeds on the Distribution Date on which the Reinvestment Period ends and (v) on each Distribution Date during any 12 month period following the date on which the applicable Sale Proceeds Reinvestment Limit is reached (or the sum of the CDS Sale Proceeds that have been reinvested during the applicable 12 month period and the CDS Sale Proceeds in the Principal Collection Account exceeds the applicable Sales Proceeds Reinvestment Limit), the amount of such excess CDS Sale Proceeds during such 12 month period shall be deemed to be Principal Proceeds.

"Pro Rata Pay Period" means any Distribution Date which does not occur during a Sequential Pay Period.

"Purchase Agreement" means the agreement dated as of the Closing Date among the Initial Purchaser, the Co-Issuers, and Cohen Bros. & Company, LLC, in its capacity as placement agent, relating to the placement of the Notes and Preference Shares.

"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.

"Qualified REIT Subsidiary" means a corporation that, for U.S. Federal income tax purposes, is wholly owned by a real estate investment trust under Section 856 of the Internal Revenue Code of 1986, as amended.

"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.

"Qualifying Interest-Only Security" means, as of any Measurement Date, any Interest-Only Security (i) which has a Moody's Rating of at least "Aaa," and (ii) which has a Standard & Poor's Rating of at least "AAA."

"Quarterly Interest Paying Securities" means securities that pay interest on a quarterly basis.

"Ramp-Up Completion Date" is the date that is the earlier of (a) August 28, 2006 and (b) the first date on which the sum of (i) the Aggregate Principal Balance of the Collateral Debt Securities that the Issuer has purchased or committed to purchase, *plus* (ii) the Aggregate Principal Balance of all Eligible Investments purchased with Principal Proceeds, *plus* (iii) the amount of all Principal Proceeds distributed on any prior Distribution Date, is at least equal to

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U.S.$1,000,000,000 (in each case, assuming for these purposes that settlement occurs 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.

"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 and any surveillance fees 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.

"Rating Condition" means with respect to any action taken or to be taken under the Indenture or any other transaction document, a condition that is satisfied when 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 Advisor that such action will not result in the withdrawal, reduction or other adverse action with respect to any then-current rating (including any private or confidential rating) by such Rating Agency of any Class of Notes.

"Ratings Event" means, with respect to any 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: (A) if the Hedge Rating Determining Party has a long-term unsecured debt rating from Moody's (and not a short-term unsecured debt rating), the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Moody's is withdrawn, suspended or falls below "A2" (or is "A2" and on watch for possible downgrade); (B) if the Hedge Rating Determining Party has both a long-term unsecured debt rating and a short unsecured debt rating from Moody's, the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Moody's is withdrawn, suspended or falls below "A3" (or is "A3" and on watch for possible downgrade) or the short-term senior unsecured debt rating of the Hedge Rating Determining Party falls below "P-2" (or is "P-2" and on watch for possible downgrade); or (C) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Standard & Poor's is withdrawn, suspended or falls below "BBB-".

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

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

"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

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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.

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

"Reinvestment Period" means the period beginning on the Closing Date and ending on the earlier of (i) the Distribution Date in August 2009 or (ii) the date on which an Event of Default has occurred; *provided*, *however*, that on any date on which the Class A-1A Notes are the Controlling Class, the Reinvestment Period shall be suspended (and no reinvestment shall be permitted hereunder except to complete purchases which the Issuer previously committed to make) from and after the first Measurement Date on which the Class A/B/C Overcollateralization Ratio is less than 100% until the earlier of (i) the next Measurement Date on which the Class A/B/C Overcollateralization Ratio is at least 100% or (ii) the date on which a Majority of the Controlling Class gives written notice to the Issuer, the Trustee and the Collateral Advisor that reinvestment may be made.

"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.

"Reset Date" means, with respect to any Hybrid Security, the date on which the Collateral Advisor on behalf of the Issuer notifies the Trustee that such Hybrid Security shall no longer be considered a Fixed Rate Security.

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

"Residential B/C Mortgage Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to

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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.

"RMBS" or "RMBS Securities" means Residential A Mortgage Securities, Residential B/C Mortgage Securities and Home Equity Loan Securities.

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

"Sale Proceeds" means 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 be calculated net of any reasonable out-of-pocket expenses of the Issuer, the Collateral Advisor or the Trustee in connection with any such sale.

"Sale Proceeds Reinvestment Limit" means, in any 12 month period, 10.0% of the Net Outstanding Portfolio Collateral Balance as of the Ramp-Up Completion Date.

"Semi-Annual Interest Paying Securities" means securities that pay interest on a semi-annual basis.

"Sequential Pay Period" means the period commencing on the earliest to occur of (a) 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 as of the Ramp-Up Completion Date (for the avoidance of doubt, the Sequential Pay Period may commence on the Distribution Date on which such balance falls to less than 50%), (b) the first Determination Date on which the Class A Sequential Pay Test is not satisfied and (c) the first Determination Date on which an Event of Default has occurred and is continuing. If a Sequential Pay Period has commenced for any reason (including a failure to satisfy the Sequential Pay Test), a Pro Rata Pay Period may not commence on any future 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.

"SFR" means Sunset Financial Resources, Inc., a Maryland corporation that has made an election to be treated, for U.S. Federal income tax purposes as a real estate investment

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trust under Section 856 of the Internal Revenue Code of 1986 and which is managed by Cohen Brothers Management, LLC, an Affiliate of the Collateral Advisor.

"SLHT" means Sunset Loan Holdings Trust, a wholly owned subsidiary of SFR.

"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.

"Special Purpose Purchaser" means a transferee of all the ordinary shares of the Issuer and all of the limited liability company interests of the Co-Issuer which is both (A) either (X) a Qualified REIT Subsidiary of SFR (or a subsidiary thereof that is a disregarded entity for U.S. Federal income tax purposes) whose organizational documents contain, in the reasonable judgment of counsel to the Issuer, substantially similar bankruptcy remoteness provisions to those in the organizational documents of SREH as of the Closing Date including that (i) such entity must have at least one independent trustee or independent director, as applicable, (ii) without the affirmative vote of such independent trustee or director, such entity shall not file a voluntary petition for relief under the United States Bankruptcy Code or similar law, consent to the institution of insolvency or bankruptcy proceedings against such entity or otherwise institute insolvency or bankruptcy proceedings with respect to such entity or take any company action in furtherance of any such filing or institution of a proceeding, (iii) without the affirmative vote of the independent trustee or director, such entity shall not convert, merge or consolidate with any other person or sell all or substantially all of its assets or acquire all or substantially all of the assets or capital stock or other ownership interest of any other person, (iv) without the affirmative vote of the independent trustee or director, such entity shall not execute any dissolution, liquidation or winding up of such entity, (v) such entity shall not consent, approve or authorize the voluntary winding up of the Issuer for so long as any Notes are outstanding, (vi) such entity's sole purpose is to hold the ordinary shares of the Issuer and the limited liability company interests of the Co-Issuer and (vii) such entity shall not transfer (a) the ordinary shares of the Issuer to any Person other than another Special Purpose Purchaser or (b) the limited liability company interests of the Co-Issuer to any Person other than another Special Purpose Purchaser or (Y) an entity as to which nationally recognized bankruptcy counsel shall have delivered to the Trustee, the Issuer and the Rating Agencies an opinion to the effect that, in the event of the insolvency of such entity, the assets and liabilities of the Issuer would be legally isolated from and would not be consolidated with the assets and liabilities of such entity, and (B) either a Qualified Institutional Buyer or a Permitted Equity Investor.

"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.

"Specified Type" means any CMBS Conduit Securities, CMBS Large Loan Securities, CMBS Credit Tenant Lease Securities, CMBS Single Property Securities, Residential

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A Mortgage Securities, Residential B/C Mortgage Securities and Home Equity Loan Securities. No other type of Asset-Backed Security may be designated as a "Specified Type."

"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 0.51% 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).

"SREH" means Sunset Real Estate Holdings, LLC.

"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.

"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.

"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

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interest, or constant spread over the applicable index or benchmark rate, at all times after the date of acquisition by the Issuer. In calculating the Collateral Quality Tests 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.

"Subordinate Notes" means the Class D Notes and the Class E Notes.

"Subordinate Noteholder" means a Class D Noteholder and/or a Class E Noteholder.

"Subordinated Termination Event" means 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).

"Substitute Collateral Debt Security" means a Collateral Debt Security acquired by or on behalf of the Issuer with Principal Proceeds that are reinvested in accordance with the provisions of the Indenture.

"Tax Event" means an event that 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 is required to deduct or withhold from any payment under the Hedge Agreement on account of any tax and such Hedge 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.

"Tax Materiality Condition" means a condition that 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 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.

"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 amounts referred to in clauses (1) through (16) of the Interest Proceeds Waterfall and clauses (1)

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through (10) of the Principal Proceeds Waterfall, 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) and to pay any fees and expenses incurred by the Trustee or the Collateral Advisor in connection with the sale of Collateral Debt Securities, 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 to (but excluding) the date of redemption and (c) solely in the case of an Auction Call Redemption, to make payments (i) to the Fiscal Agent for distribution to the holders of the Subordinate Notes and (ii) to the Preference Share Paying Agent for distribution to the Preference Shareholders, in an aggregate amount equal to the Class D/E/Preference Share Redemption Date Amount, if any.

"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 Secured Note Registrar, the Trustee or any co-trustee appointed pursuant to the Indenture, (ii) the Collateral Administrator pursuant to the Collateral Administration Agreement, (iii) the Preference Share Paying Agent pursuant to the Preference Share Paying Agency Agreement, (iv) the Subordinate Note Registrar, the Fiscal Agent or any co-Fiscal Agent appointed pursuant to the Fiscal Agency Agreement and (v) the Custodian pursuant to the Account Control Agreement.

"Trustee Fee" means the fee payable, in accordance with the Priority of Payments, to LaSalle Bank National Association, in its capacities (or any successor to it in such capacities) as (i) Secured Note Registrar and Trustee under the Indenture, (ii) Collateral Administrator under the Collateral Administration Agreement, (iii) Custodian under the Account Control Agreement, (iv) Subordinate Note Registrar and Fiscal Agent under the Fiscal Agency Agreement and (v) Preference Share Paying Agent under the Preference Share Paying Agency Agreement, in an amount, for (i), (ii), (iii), (iv) and (v) combined, equal to, for each Distribution Date, 0.0075% *per annum* of the Monthly Asset Amount for the related Due Period, subject to a minimum annual fee of U.S.$25,000.

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

"Uninvested Proceeds" means at any time, the net proceeds received by the Issuer on the Closing Date from the initial issuance of the Notes and the Preference Shares, to the extent that such proceeds (i) have not been deposited in the Expense Account or the Reserve Account or (ii) are not subject to a binding commitment to invest, or have not been invested in, Collateral Debt Securities, in each case in accordance with the Indenture.

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"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 Advisor, in that Collateral Debt Security.

"Voting Factor" means at any time, a number obtained by (a) calculating the percentage obtained by *multiplying* 4.99% *by* the number of Reg Y Institutions (*provided* that such Reg Y Institution has identified itself as such in writing to the Trustee) (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 *divided by* 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) *dividing* the percentage obtained in clause (b) above *by* the percentage obtained by *dividing* (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 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.

"Weighted Average Coupon" means, as of any Measurement Date on or after the Ramp-Up Completion 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 an Interest-Only Security, a Defaulted Security, Deferred Interest PIK Bond or Written Down Amount) *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 Interest-Only Securities, all Defaulted Securities, Deferred Interest PIK Bonds and Written Down Amounts) *plus* (b) the number obtained by (i) summing the products obtained by multiplying (x) the notional interest rate on each Qualifying Interest-Only Security (computed relative to the notional principal amount of such Qualifying Interest-Only Security) (excluding

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all Defaulted Securities, Deferred Interest PIK Bonds and Written Down Amounts) that is a Fixed Rate Security or a Deemed Fixed Rate Security by (y) the notional principal amount of each such Qualifying Interest-Only Security and (ii) dividing such sum by the aggregate principal balance of all Collateral Debt Securities that are Fixed Rate Securities or Deemed Fixed Rate Securities (excluding all Defaulted Securities, Deferred Interest PIK Bonds and Written Down Amounts) *plus* (c) 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.

"Weighted Average Spread" means, as of any Measurement Date, the sum (expressed as a percentage) (rounded up to the next 0.001%) of (a) the amount 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 a Deemed Floating Rate Security (other than an Interest-Only Security, a Defaulted Security, a Deferred Interest PIK Bond or a Written Down Amount) 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 Interest-Only Securities, Defaulted Securities, Deferred Interest PIK Bonds and Written Down Amounts) *plus* (b) the number obtained by (i) summing the products obtained by multiplying (x) the notional interest rate above LIBOR on each Qualifying Interest-Only Security that is a Floating Rate Security or a Deemed Floating Rate Security (computed relative to the notional principal amount of such Qualifying Interest-Only Security) (excluding Defaulted Securities, Written-Down Securities and Deferred Interest PIK Bonds) as of such date by (y) the notional principal amount of each such Qualifying Interest-Only Security and (ii) dividing such sum by the aggregate principal balance of all Collateral Debt Securities that are Floating Rate Securities or Deemed Floating Rate Securities (excluding all Defaulted Securities, Written-Down Securities and Deferred Interest PIK Bonds) *plus* (c) if such amount obtained pursuant to clauses (a) and (b) 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 and (2) 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.

"Withholding Tax Security" means a Collateral Debt Security if:

(i) any payments thereon to the Issuer are subject to withholding tax imposed by any jurisdiction (other than U.S. backup withholding tax, withholding pursuant to European Council Directive 2003/48/EC or other similar withholding tax); and

(ii) under the underlying documentation with respect to such Collateral Debt Security, the issuer of or counterparty with respect to such Collateral Debt Security is not required to make "gross up" payments to the Issuer that cover the full amount of such withholding tax on an after tax basis.

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"Written Down Amount" means, as of any date of determination with respect to any Written Down Security, the *pro rata* share for such Written Down Security (based on its principal amount relative to the aggregate principal amount of all other securities secured by the same pool of collateral that rank pari passu with such Collateral Debt Security) of the excess of 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 over the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such securities (excluding defaulted collateral that has been charged off), as determined by the Collateral Advisor using customary procedures and information available in the servicer reports received by the Trustee relating to such Written Down Security. Interest and other distributions on a Written Down Security shall be allocated between the Written Down Amount and the remaining Principal Balance in the manner provided in the Underlying Instruments and the servicer reports received by the Trustee relating to such Written Down Security or, if no such allocation is provided therein, shall be allocated *pro rata* between such Written Down Amount and such Principal Balance, and in each case the Trustee may request (and rely on) information regarding such allocation provided by the Collateral Advisor.

"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 that has been charged off), as determined by the Collateral Advisor using customary procedures and information available in the servicer reports received by the Trustee relating to such Written Down Security.

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U.S.$775,000,000 Class A-1A First Priority Senior Secured Floating Rate Notes Due November 2046
U.S.$125,000,000 Class A-1B Second Priority Senior Secured Floating Rate Notes Due November 2046
U.S.$23,000,000 Class A-2 Third Priority Senior Secured Floating Rate Notes Due November 2046
U.S.$18,700,000 Class B Fourth Priority Senior Secured Floating Rate Notes Due November 2046
U.S.$27,000,000 Class C Fifth Priority Senior Secured Floating Rate Notes Due November 2046
U.S.$11,000,000 Class D Sixth Priority Mezzanine Deferrable Floating Rate Notes Due November 2046
U.S.$15,000,000 Class E Seventh Priority Mezzanine Deferrable Fixed Rate Notes Due November 2046
4,000 Preference Shares with an Aggregate Notional Amount of U.S.$4,000,000

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