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DISCLAIMER

Attached please find an electronic copy of the Offering Circular dated September 22, 2006 (the "Offering Circular") relating to the offering by Kleros Preferred Funding III, Ltd. and Kleros Preferred Funding III, LLC of certain notes and preference shares.

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

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

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

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

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

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

OFFERING CIRCULAR

U.S.$1,800,000,000 Class A-1 First Priority Senior Secured Delayed Draw Floating Rate Notes Due 2050
U.S.$90,000,000 Class A-2 Second Priority Senior Secured Floating Rate Notes Due 2050
U.S.$54,000,000 Class B Third Priority Senior Secured Floating Rate Notes Due 2050
U.S.$9,800,000 Class C Fourth Priority Mezzanine Secured Deferrable Floating Rate Notes Due 2050
U.S.$25,800,000 Class D Fifth Priority Mezzanine Secured Deferrable Floating Rate Notes Due 2050
U.S.$6,000,000 Class E Sixth Priority Mezzanine Secured Deferrable Floating Rate Notes Due 2050
8,600 Preference Shares with an Aggregate Liquidation Preference of U.S.$8,600,000
U.S.$8,000,000 Combination Notes Due 2050

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

Kleros Preferred Funding III, Ltd.
Kleros Preferred Funding III, LLC

Kleros Preferred Funding III, Ltd., an exempted company incorporated under the laws of the Cayman Islands (the "Issuer"), and Kleros Preferred Funding III, LLC, a Delaware limited liability company (the "Co-Issuer" and, together with the Issuer, the "Co-Issuers"), will issue U.S.$1,800,000,000 Class A-1 First Priority Senior Secured Delayed Draw Floating Rate Notes due October, 2050 (the "Class A-1 Notes"), U.S.$90,000,000 Class A-2 Second Priority Senior Secured Floating Rate Notes due October, 2050 (the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes"), U.S.$54,000,000 Class B Third Priority Senior Secured Floating Rate Notes due October, 2050 (the "Class B Notes"), U.S.$9,800,000 Class C Fourth Priority Mezzanine Secured Deferrable Floating Rate Notes due October, 2050 (the "Class C Notes"), U.S.$25,800,000 Class D Fifth Priority Mezzanine Secured Deferrable Floating Rate Notes due October, 2050 (the "Class D Notes") and U.S.$6,000,000 Class E Sixth Priority Mezzanine Secured Deferrable Floating Rate Notes due October, 2050 (the "Class E Notes" and, together with the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, the "Notes"). Concurrently with the issuance of the Notes, the Issuer will issue (a) 8,600 Preference Shares with an aggregate liquidation preference of U.S.$8,600,000 (the "Preference Shares") and (b) U.S.$8,000,000 Combination Notes Due October, 2050 (the "Combination Notes" and together with the Preference Shares and the Notes, the "Offered Securities"). The Collateral securing the Notes will be managed by Strategos Capital Management, LLC, a Delaware limited liability company (the "Collateral Manager"). *(continued on next page)*

It is a condition to the issuance of the Offered Securities that the Class A-1 Notes be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by 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-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 "A2" by Moody's and at least "A" 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, that the Class E Notes be rated at least "Ba1" by Moody's and at least "BB+" by Standard & Poor's and that the Combination Notes be rated at least "A2" by Moody's. The rating of the Combination Notes addresses the ultimate receipt of the Combination Note Balance (as defined herein). 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, suspension or withdrawal at any time by the applicable Rating Agency. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. Application will be made to the Channel Islands Stock Exchange LBG (the "CISX") for the listing of and permission to deal in the Preference Shares. There can be no assurance that any such listing will be obtained. No application will be made to list the Notes or the Preference Shares on any other exchange.

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

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

The Offered Securities are offered from time to time in individually negotiated transactions at varying prices to be determined at the time of sale by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS" or the "Initial Purchaser") subject to prior sale, when, as and if issued. The Initial Purchaser reserves the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. Cohen & Company Securities, LLC, an affiliate of the Collateral Manager, may act as a placement agent with respect to certain of the Offered Securities. It is expected that the Offered Securities will be delivered on or about September 26, 2006 (the "Closing Date"), in the case of the Notes, the Regulation S Global Combination Notes and the Regulation S Global Preference Shares, through the facilities of The Depository Trust Company ("DTC") and in the case of the Definitive Combination Notes and Definitive Preference Shares, at the offices of Merrill Lynch, Pierce, Fenner & Smith Incorporated, against payment therefor in immediately available funds.

Merrill Lynch & Co.

The date of this Offering Circular is September 22, 2006.

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The Notes will be issued and secured pursuant to an Indenture dated as of September 26, 2006 (the "Indenture") among the Issuer, the Co-Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Preference Shares are being issued pursuant to the Amended and Restated Memorandum and Articles of Association of the Issuer (the "Issuer Charter") and certain resolutions adopted at the meeting of the Issuer's board of directors on or before the Closing Date as reflected in the minutes thereof (the "Resolutions") and 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 Wells Fargo Bank, National Association, as preference share paying agent (in such capacity, the "Preference Share Paying Agent") and Walkers SPV Limited, as preference share registrar (in such capacity, the "Preference Share Registrar"). The Collateral (as defined herein) securing the Notes will be managed by Strategos Capital Management, LLC (the "Collateral Manager"). Subject in each case to the Priority of Payments, (a) holders of the Class A-1 Notes will be entitled to receive interest at a floating rate *per annum* equal to the applicable London interbank offered rate in effect from time to time (determined as described herein) plus 0.25%, (b) holders of the Class A-2 Notes will be entitled to receive interest at a floating rate *per annum* equal to the applicable London interbank offered rate in effect from time to time (determined as described herein) plus 0.44%, (c) holders of the Class B Notes will be entitled to receive interest at a floating rate *per annum* equal to the applicable London interbank offered rate in effect from time to time (determined as described herein) plus 0.51%, (d) holders of the Class C Notes will be entitled to receive interest at a floating rate *per annum* equal to the applicable London interbank offered rate in effect from time to time (determined as described herein) plus 1.30%, (e) holders of the Class D Notes will be entitled to receive interest at a floating rate *per annum* equal to the applicable London interbank offered rate in effect from time to time (determined as described herein) plus 3.15%, and (f) holders of the Class E Notes will be entitled to receive interest at a floating rate *per annum* equal to the applicable London interbank offered rate in effect from time to time (determined as described herein) plus 6.25%. See "Description of the Notes—Priority of Payments".

Interest on the Notes and distributions on the Preference Shares, if any, will be payable in U.S. dollars quarterly (or, in the case of the Class A-1 Notes, monthly) in arrears on January 1, April 1, July 1 and October 1 of each year (each, a "Distribution Date"), commencing with the Distribution Date in January, 2007; *provided* that (i) the final Distribution Date with respect to the Notes will be the Stated Maturity, (ii) solely when used with respect to any payment made or to be made with respect to the Class A-1 Notes, the 1st day of each other calendar month shall also be a Distribution Date, (iii) if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day and (iv) the Accelerated Maturity Date will be a Distribution Date. Payments of principal of and interest and Commitment Fee on the Notes on any Distribution Date will be made if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein. See "Description of the Notes—Interest" and "Description of the Notes—Principal". The principal of each Class of the Notes is required to be paid by the Stated Maturity, unless redeemed or repaid prior thereto. See "Description of the Notes—Principal". Each of the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes is referred to herein as a "Class" of Notes.

All of the Class A-1 Notes are entitled to receive payments *pari passu* among themselves, all of the Class A-2 Notes are entitled to receive payments *pari passu* among themselves, all of the Class B Notes are entitled to receive payments *pari passu* among themselves, all of the Class C Notes are entitled to receive payments *pari passu* among themselves, all of the Class D Notes are entitled to receive payments *pari passu* among themselves, 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 with respect to the payment of

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principal during a Pro Rata Pay Period, the relative order of seniority of payment of each Class of Notes on each Distribution Date is as follows: *first*, Class A-1 Notes, *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Notes, *fifth*, Class D Notes and, *sixth*, 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 (*e.g.*, the Class A-1 Notes are Senior to the Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes) and (b) each Class of Notes (other than the Class A-1 Notes) in such list being "Subordinate" to each other Class of Notes that precedes such Class of Notes in such list (*e.g.*, the Class E Notes are Subordinate to the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes). No payment of interest on any Class of Notes will be made until all accrued and unpaid interest and Commitment Fee on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full. The assets of the Issuer, which will be pledged to secure the Notes and certain other obligations of the Issuer, will be comprised of (a) the Custodial Account, the Collateral Debt Securities and the Equity Securities, (b) the Interest Collection Account, the Uninvested Proceeds Account, the Principal Collection Account, the Payment Account, the Expense Account, the Interest Reserve Account, the Semi-Annual Interest Reserve Account, each Synthetic Security Counterparty Account (including the Synthetic Security Collateral deposited in such account), each Synthetic Security Issuer Account (including the Synthetic Security Collateral deposited in such account), each Hedge Counterparty Collateral Account, all funds and other property standing to the credit of each such account, Eligible Investments purchased with funds standing to the credit of each such account and all income from the investment of funds therein, (c) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement 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 (collectively, the "Collateral"). The security interest granted under the Indenture in each Synthetic Security Counterparty Account is subject to and subordinate to the security interest and rights of the relevant Synthetic Security Counterparty in and to such Synthetic Security Counterparty Account.

The Notes are subject to redemption under the circumstances described under "Description of the Notes—Optional Redemption and Tax Redemption", "—Auction Call Redemption", "—Mandatory Redemption" and "—Priority of Payments". On each Distribution Date, to the extent funds are available therefor, Interest Proceeds will be released from the lien of the Indenture for payment to the Preference Share Paying Agent only after the payment of interest and Commitment Fee on the Notes and certain other amounts in accordance with the Priority of Payments. Any Interest Proceeds permitted to be released from the lien of the Indenture on any Distribution Date in accordance with the Priority of Payments and paid to the Preference Share Paying Agent will, subject to the provisions of Cayman Islands law governing the declaration and payment of dividends, be distributed to the holders of the Preference Shares (the "Preference Shareholders") on such Distribution Date. Until the Notes have been paid in full, Principal Proceeds will not be available to make distributions in respect of the Preference Shares. Subject to provisions of Cayman Islands law governing the declaration and payment of dividends (as described herein), after the Notes have been paid in full, Interest Proceeds and Principal Proceeds remaining after all other applications under the Priority of Payments will be released from the lien of the Indenture in accordance with the Priority of Payments and paid to the Preference Share Paying Agent for distribution to the Preference Shareholders on such Distribution Date. Distributions (other than certain liquidating distributions described herein) will be made in cash. The directors of the Issuer currently intend, in the event that the Preference Shares are not redeemed at the option of a Majority-in-Interest of Preference Shareholders following the repayment in full of the Notes, to liquidate all of the Issuer's remaining investments in an orderly manner and distribute the proceeds of such liquidation to the Preference Shareholders. See "Description of the Preference Shares—Distributions".

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The Offered Securities are offered from time to time in individually negotiated transactions at varying prices to be determined at the time of sale by the Initial Purchaser. The Notes offered by the Co-Issuers in the United States will be offered in reliance on an exemption from the registration requirements of the Securities Act and will initially be represented by one or more global notes ("Restricted Global Notes") in fully registered form without interest coupons deposited with the Trustee as custodian for, and registered in the name of, DTC (or its nominee). The Notes offered by the Co-Issuers outside the United States will be offered in reliance upon Regulation S and will be represented by one or more global notes ("Regulation S Global Notes") in fully registered form without interest coupons, deposited with the Trustee as custodian for, and registered in the name of, DTC (or its nominee). Except in the limited circumstances described herein, certificated Notes will not be issued in exchange for beneficial interests in a Restricted Global Note or a Regulation S Global Note. The Preference Shares offered by the Issuer in the United States will be offered in reliance upon an exemption from the registration requirements of the Securities Act ("Restricted Definitive Preference Shares"). All Restricted Definitive Preference Shares will be represented by certificates in fully registered definitive form, registered in the name of the legal and beneficial owner thereof (or a nominee acting on behalf of the disclosed legal and beneficial owner thereof). The Preference Shares offered by the Issuer outside the United States will be offered in reliance upon Regulation S ("Regulation S Preference Shares"). Regulation S Preference Shares will be represented by either (i) one or more global preference shares ("Regulation S Global Preference Shares") in fully registered form without interest coupons, deposited with the Preference Share Paying Agent as custodian for, and registered in the name of, DTC (or its nominee) initially for the accounts of Euroclear and/or Clearstream, Luxembourg or (ii) in the limited circumstances described herein, preference share certificates in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof ("Regulation S Definitive Preference Shares"). No Class D Note or Class E Note shall be issued as a Restricted Global Note. See "Description of the Notes—Form, Denomination, Registration and Transfer" and "Description of the Preference Shares—Form, Registration and Transfer". Application will be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. Application will be made to the CISX for the listing of and permission to deal in the Preference Shares. There can be no assurance that any such listing will be obtained. No application will be made to list the Notes or the Preference Shares on any other 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.

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

THE NOTES ARE LIMITED RECOURSE OBLIGATIONS OF THE CO-ISSUERS. THE NOTES ARE PAYABLE SOLELY FROM THE COLLATERAL DEBT SECURITIES AND OTHER COLLATERAL PLEDGED BY THE ISSUER TO SECURE THE NOTES. NONE OF THE SECURITY HOLDERS, MEMBERS, OFFICERS, DIRECTORS, MANAGERS OR INCORPORATORS OF THE ISSUER, THE CO-ISSUER, THE TRUSTEE, THE ADMINISTRATOR, THE COLLATERAL MANAGER, ANY RATING AGENCY, THE SHARE TRUSTEE, THE INITIAL PURCHASER, 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 AND COMMITMENT FEE THEREON.

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

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STRUCTURE DOES NOT PERMIT DISCLOSURE OF INFORMATION IDENTIFYING THE ISSUER, THE CO-ISSUER, THE COLLATERAL MANAGER OR ANY OTHER PARTY TO THE TRANSACTION, THIS OFFERING OR THE PRICING (EXCEPT TO THE EXTENT PRICING IS RELEVANT TO TAX STRUCTURE OR TAX TREATMENT) OF THIS OFFERING.

THE OFFERED SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. THE OFFERED SECURITIES ARE TO BE PURCHASED FOR INVESTMENT ONLY AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED BY AN INVESTOR DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY OFFERED SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREOF ("RULE 144A") OR ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ON ANY APPLICABLE STATE SECURITIES LAWS. FOR CERTAIN RESTRICTIONS ON RESALE, SEE "DESCRIPTION OF THE NOTES—FORM, DENOMINATION, REGISTRATION AND TRANSFER", "DESCRIPTION OF THE PREFERENCE SHARES—FORM, REGISTRATION AND TRANSFER", AND "TRANSFER RESTRICTIONS". A TRANSFER OF OFFERED SECURITIES IS SUBJECT TO THE RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE OF AN OFFERED SECURITY (1) EXCEPT AS PERMITTED UNDER (A) THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION AS DESCRIBED HEREIN, (B) APPLICABLE STATE SECURITIES LAWS AND (C) APPLICABLE SECURITIES LAWS OF ANY OTHER JURISDICTION, (2) EXCEPT IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SET FORTH IN THE INDENTURE AND THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, RESPECTIVELY AND (3) IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION (IN THE CASE OF THE NOTES) OR A NUMBER LESS THAN THE REQUIRED MINIMUM NUMBER (IN THE CASE OF THE PREFERENCE SHARES). THE OFFERED SECURITIES ARE SUBJECT TO FURTHER RESTRICTIONS ON TRANSFER. SEE "TRANSFER RESTRICTIONS".

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

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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 CLASS D NOTE OR CLASS E NOTE) OR AN INTEREST THEREIN WILL BE REQUIRED TO CERTIFY (OR IN CERTAIN CIRCUMSTANCES DEEMED TO REPRESENT AND WARRANT) EITHER THAT (A) IT IS NOT (AND FOR SO LONG AS IT HOLDS ANY NOTE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT (AND FOR SO LONG AS IT HOLDS ANY NOTE OR INTEREST THEREIN WILL NOT BE) ACTING ON BEHALF OF AN EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN SUBJECT TO SECTION 4975 OF THE CODE, AN ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED TO INCLUDE ASSETS OF ANY SUCH PLAN BY REASON OF SUCH A PLAN'S INVESTMENT IN SUCH ENTITY (ANY SUCH EMPLOYEE BENEFIT PLAN, PLAN OR ENTITY BEING REFERRED TO HEREIN AS A "BENEFIT PLAN INVESTOR"), 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 PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT CONSTITUTE A 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 SIMILAR LAW).

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A CLASS D NOTE OR CLASS E NOTE OR ANY INTEREST THEREIN IS DEEMED TO REPRESENT AND WARRANT THAT SUCH HOLDER IS NOT (AND FOR SO LONG AS IT HOLDS A CLASS D NOTE OR CLASS E NOTE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS A CLASS D NOTE OR CLASS E NOTE OR ANY INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR (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 AND EACH TRANSFEREE OF A CLASS D NOTE OR CLASS E NOTE OR AN INTEREST THEREIN WILL BE DEEMED TO REPRESENT THAT SUCH OWNER WILL NOT TRANSFER SUCH INTEREST EXCEPT IN COMPLIANCE WITH THE TRANSFER RESTRICTIONS SET FORTH IN THE INDENTURE INCLUDING THE REQUIREMENT THAT NO CLASS D NOTE OR CLASS E NOTE OR AN INTEREST THEREIN MAY BE TRANSFERRED TO A BENEFIT PLAN INVESTOR.

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A RESTRICTED DEFINITIVE PREFERENCE SHARE OR AN INTEREST THEREIN WILL BE REQUIRED TO CERTIFY WHETHER OR NOT IT IS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON (EACH, AS DEFINED BELOW). NO TRANSFER OF A RESTRICTED DEFINITIVE PREFERENCE SHARE WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH 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

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REGULATION S GLOBAL PREFERENCE SHARE OR AN INTEREST THEREIN MAY BE ACQUIRED BY OR TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON. EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF AN INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE WILL BE REQUIRED TO EXECUTE A LETTER IN THE FORM OF EXHIBIT A TO THIS OFFERING CIRCULAR AND AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT TO THE EFFECT THAT SUCH OWNER WILL NOT TRANSFER SUCH INTEREST EXCEPT IN COMPLIANCE WITH THE TRANSFER RESTRICTIONS SET FORTH IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT (INCLUDING THE REQUIREMENT THAT NO REGULATION S GLOBAL PREFERENCE SHARES MAY BE TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, AND THE REQUIREMENT THAT ANY SUBSEQUENT TRANSFEREE EXECUTE AND DELIVER SUCH LETTER TO THE ISSUER AND THE PREFERENCE SHARE PAYING AGENT AS A CONDITION TO ANY SUBSEQUENT TRANSFER). NO REGULATION S GLOBAL PREFERENCE SHARES MAY BE TRANSFERRED TO A TRANSFEREE WHICH IS ACQUIRING AN INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE UNLESS SUCH TRANSFEREE EXECUTES A LETTER IN THE FORM OF EXHIBIT A TO THIS OFFERING CIRCULAR AND AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT. NO RESTRICTED DEFINITIVE PREFERENCE SHARE MAY BE ACQUIRED BY OR TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON OTHER THAN ON THE CLOSING DATE AND ONLY TO THE EXTENT THAT, 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 RESTRICTED DEFINITIVE PREFERENCE SHARE THAT IS A BENEFIT PLAN INVESTOR OR A GOVERNMENTAL OR CHURCH PLAN SUBJECT TO 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 SUCH SIMILAR LAW).

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

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

THE OFFERED SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION, AND NONE OF THE FOREGOING AUTHORITIES HAS CONFIRMED THE

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ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Offering Circular has been prepared by the Co-Issuers solely for use in connection with the offering of the Offered Securities described herein (the "Offering") and for listing purposes. The Co-Issuers have taken all reasonable care to confirm that the information contained in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect and that there are no other facts relating to the Co-Issuers or the Offered Securities, the omission of which makes this Offering Circular as a whole or any such information contained herein, in light of the circumstances under which it was made, misleading in any material respect. The Co-Issuers accept responsibility for the information contained in this document. To the best knowledge and belief of the Co-Issuers the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Co-Issuers disclaim any obligation to update such information and do not intend to do so. Neither the Initial Purchaser nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein. Neither the Collateral Manager nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein (other than the information set forth herein under "Collateral Manager"). 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. The Trustee has not participated in the preparation of this Offering Circular and assumes no 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". Neither the Initial Purchaser, the Collateral Manager nor any of their respective affiliates assumes any responsibility for the performance of any obligations of either of the Co-Issuers or any other person described in this Offering Circular or for the due execution, validity or enforceability of the Offered Securities, instruments or documents delivered in connection with the Offered Securities (other than in respect of its own obligations), or for the value or validity of any collateral or security interests pledged in connection therewith. 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 Offered Securities, instruments or documents delivered in connection with the Offered Securities (other than their own obligations under documents entered into by them) or for the value or validity of any collateral or security interests pledged in connection therewith.

This Offering Circular contains summaries of certain documents. The summaries do not purport to be complete and are qualified in their entirety by reference to such documents, copies of which will be made available to offerees upon request and are available at the office of the Trustee. Requests and inquiries regarding this Offering Circular or such documents should be directed to Merrill Lynch, Pierce, Fenner & Smith Incorporated at 4 World Financial Center, New York, New York 10080; Attention: Global Structured Credit Products.

The Irish paying agent for the Notes will initially be Custom House Administration and Corporate Services Limited located in Dublin, Ireland (in such capacity, the "Irish Paying Agent"). The sponsor, or listing agent, for the Preference Shares on the Channel Islands Stock Exchange is Ogier Corporate

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Finance Limited. Ogier Corporate Finance Limited is acting for the Issuer and for no one else in connection with the listing of the Preference Shares, and will not be responsible for anyone other than the Issuer.

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

The Co-Issuers will make available to any offeree of the Offered Securities, prior to the issuance thereof, the opportunity to ask questions of and to receive answers from the Co-Issuers or a person acting on their behalf concerning the terms and conditions of the Offering, the Co-Issuers or any other relevant matters and to obtain any additional information to the extent the Co-Issuers possess such information or can obtain it without unreasonable expense.

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

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

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

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

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

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

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

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

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NOTICE TO FLORIDA RESIDENTS

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

NOTICE TO CONNECTICUT RESIDENTS

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

NOTICE TO GEORGIA RESIDENTS

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

NOTICE TO RESIDENTS OF AUSTRIA

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

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NOTICE TO RESIDENTS OF BELGIUM

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

NOTICE TO MEMBERS OF THE PUBLIC IN THE CAYMAN ISLANDS

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

NOTICE TO RESIDENTS OF DENMARK

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

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 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:

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(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.

NOTICE TO RESIDENTS OF FINLAND

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

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NOTICE TO RESIDENTS OF FRANCE

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

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

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

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

NOTICE TO RESIDENTS OF GERMANY

THE OFFERED SECURITIES WILL NOT BE OFFERED OR SOLD IN THE FEDERAL REPUBLIC OF GERMANY OTHER THAN IN ACCORDANCE WITH THE GERMAN SECURITIES SALES PROSPECTUS ACT OF DECEMBER 13, 1990 OF THE FEDERAL REPUBLIC OF GERMANY, AS AMENDED (*WERTPAPIERVERKAUFSPROSPEKTGESETZ*), THE GERMAN INVESTMENT ACT OF DECEMBER 15, 2003 OF THE FEDERAL REPUBLIC OF GERMANY, AS AMENDED (*INVESTMENTGESETZ*) AND ANY OTHER LEGAL OR REGULATORY REQUIREMENTS APPLICABLE IN THE FEDERAL REPUBLIC OF GERMANY GOVERNING THE ISSUE, OFFER AND SALE OF SECURITIES. NOTWITHSTANDING ANY REQUEST OF A GERMAN INVESTOR THEREFOR, THE ISSUER WILL NOT BE IN A POSITION TO, AND WILL NOT, COMPLY WITH ANY CALCULATION AND INFORMATION REQUIREMENTS SET FORTH IN § 5 THE *INVESTMENTSTEUERGESETZ* (THE "GERMAN INVESTMENT TAX ACT") FOR GERMAN TAX PURPOSES. IN THIS REGARD, PROSPECTIVE INVESTORS MUST REVIEW "RISK FACTORS-APPLICATION OF THE GERMAN INVESTMENT ACT AND THE GERMAN INVESTMENT TAX ACT". ALL PROSPECTIVE GERMAN INVESTORS ARE URGED TO SEEK INDEPENDENT TAX ADVICE. THE INITIAL PURCHASER DOES NOT GIVE TAX ADVICE.

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NOTICE TO RESIDENTS OF HONG KONG

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

NOTICE TO RESIDENTS OF JAPAN

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

NOTICE TO RESIDENTS OF THE NETHERLANDS

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

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NOTICE TO RESIDENTS OF SINGAPORE

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

NOTICE TO RESIDENTS OF SWITZERLAND

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

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

THIS OFFERING CIRCULAR AND ANY OTHER DOCUMENT PREPARED IN CONNECTION WITH THE OFFERING AND ISSUANCE OF THE OFFERED 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.

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AVAILABLE INFORMATION

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

FORWARD LOOKING STATEMENTS

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

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

Securities Offered:

U.S.$1,800,000,000 maximum aggregate principal amount Class A-1 First Priority Senior Secured Delayed Draw Floating Rate Notes due October, 2050 (the "Class A-1 Notes").

U.S.$90,000,000 aggregate principal amount Class A-2 Second Priority Senior Secured Floating Rate Notes due October, 2050 (the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes").

U.S.$54,000,000 aggregate principal amount Class B Third Priority Senior Secured Floating Rate Notes due October, 2050 (the "Class B Notes").

U.S.$9,800,000 aggregate principal amount Class C Fourth Priority Mezzanine Secured Deferrable Floating Rate Notes due October, 2050 (the "Class C Notes").

U.S.$25,800,000 aggregate principal amount Class D Fifth Priority Mezzanine Secured Deferrable Floating Rate Notes due October, 2050 (the "Class D Notes").

U.S.$6,000,000 aggregate principal amount Class E Sixth Priority Mezzanine Secured Deferrable Floating Rate Notes due October, 2050 (the "Class E Notes" and, together with the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes, the "Notes").

8,600 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share (the "Preference Shares" and, together with the Notes, the "Offered Securities").

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

The Notes will be issued and secured pursuant to an Indenture dated as of the Closing Date (the "Indenture"), among the Issuer, the Co-Issuer and Wells Fargo Bank, National Association, as trustee (in such capacity, together with its successors in such capacity, the "Trustee"). Each of the Hedge Counterparties, certain Synthetic Security Counterparties, the Collateral Manager, the Controlling Beneficiary and each holder of Preference Shares (each, a "Preference Shareholder") will be an express third party beneficiary of the Indenture. See "Description of the Notes—Status and

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Security" and "—The Indenture". The Notes will be limited-recourse debt obligations of the Co-Issuers secured solely by a pledge of the Collateral by the Issuer to the Trustee pursuant to the Indenture for the benefit of the holders from time to time of the Notes, each Hedge Counterparty, certain Synthetic Security Counterparties, the Collateral Manager, the Collateral Administrator and the Trustee (collectively, the "Secured Parties"). See "Description of the Notes—Status and Security".

All of the Notes and the Preference Shares will be issued on or about September 26, 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, Wells Fargo Bank, National Association, as preference share paying agent (in such capacity, the "Preference Share Paying Agent") and Walkers SPV Limited, as preference share registrar (in such capacity, the "Preference Share Registrar").

All of the Class A-1 Notes are entitled to receive payments *pari passu* among themselves, all of the Class A-2 Notes are entitled to receive payments *pari passu* among themselves, all of the Class B Notes are entitled to receive payments *pari passu* among themselves, all of the Class C Notes are entitled to receive payments *pari passu* among themselves, all of the Class D Notes are entitled to receive payments *pari passu* among themselves, 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-1 Notes, *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Notes, *fifth*, Class D Notes and, *sixth*, 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-1 Notes) in such list being "Subordinate" to each other Class of Notes that precedes such Class of Notes in such list.

No payment of interest on any Class of Notes will be made until all accrued and unpaid interest and Commitment Fee on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full. During a Sequential Pay Period, no payment

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of principal of any Class of Notes will be made until all principal of, and accrued and unpaid interest and Commitment Fee on the Notes of each Class that is Senior to such Class and that remain outstanding have been paid in full, except for (i) payments of Deferred Interest Amounts and (ii) payments of Interest Proceeds after the breach of an Overcollateralization Test. Payments of principal of the Notes will not be made strictly in accordance with their Seniority during a Pro Rata Pay Period. See "Description of the Notes—Priority of Payments".

The Co-Issuers:

Kleros Preferred Funding III, Ltd. (the "Issuer") is an exempted company incorporated under Cayman Islands law pursuant to the Issuer Charter. The entire issued share capital of the Issuer consists of (a) 1,000 ordinary shares, par value U.S.$1.00 per share, each of which will be held in trust for charitable purposes by Walkers SPV Limited in the Cayman Islands (the "Share Trustee") under the terms of a declaration of trust, and (b) 8,600 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share. The Indenture and Issuer Charter will provide that the activities of the Issuer are limited to (1) acquiring, disposing of, and investing in Collateral Debt Securities and Equity Securities acquired by the Issuer in the limited circumstances described herein and Eligible Investments, (2) entering into and performing its obligations under the Indenture, the Collateral Management Agreement, the Administration Agreement, the Collateral Administration Agreement, the Purchase Agreement, any Credit Derivative Transactions, the Hedge Agreements and the Preference Share Paying Agency Agreement, (3) issuing and selling the Offered Securities, (4) pledging the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties, (5) owning the limited liability company interests of the Co-Issuer and (6) other activities incidental to the foregoing.

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

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

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

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The Co-Issuer will be capitalized only to the extent of its U.S.$1,000 undivided limited liability company interest, will have no assets, other than the proceeds from the sale of its interests to the Issuer, and will not pledge any assets to secure the Notes. The Co-Issuer will not have any interest in the Collateral Debt Securities or other assets held by the Issuer and will have no claim against the Issuer in respect of the Collateral Debt Securities or otherwise.

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

Use of Proceeds: The gross proceeds received from the issuance and sale of the Offered Securities (after giving effect to and assuming the making of all Borrowings under the Class A-1 Notes after the Closing Date), together with the Up-Front Payment to be made to the Issuer under the initial Hedge Agreement, will be approximately U.S.$2,011,000,000. The net proceeds from the issuance and sale of the Offered Securities (after giving effect to and assuming the making of all Borrowings under the Class A-1 Notes after the Closing Date), together with the Up-Front Payment to be made to the Issuer under the initial Hedge Agreement, are expected to be approximately U.S.$1,999,000,000, which reflects the payment from such gross proceeds of organizational and structuring fees, an upfront management fee payable to the Collateral Manager, and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Manager and the Initial Purchaser), the expenses, fees and commissions incurred in connection with the acquisition of the Collateral Debt Securities for inclusion in the Collateral on or prior to the Closing Date, the expenses of offering the Offered Securities (the "Offering") (including fees payable to the Initial Purchaser in connection with the Offering) and the initial deposits into the Expense Account and the Interest Reserve Account. Such net proceeds will be used by the Issuer to purchase a diversified portfolio of interests in (a) Asset-Backed Securities and

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(b) Synthetic Securities that, in each case, satisfy the investment criteria described herein. Pending the purchase of such portfolio, such net proceeds may be temporarily invested in Eligible Investments. See "Security for the Notes".

Interest Payments on the Notes: The Class A-1 Notes will bear interest at a floating rate *per annum* equal to LIBOR (determined as described herein) plus 0.25%. The Class A-2 Notes will bear interest at a floating rate *per annum* equal to LIBOR (determined as described herein) plus 0.44%. The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR (determined as described herein) plus 0.51%. The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR (determined as described herein) plus 1.30%. The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR (determined as described herein) plus 3.15%. The Class E Notes will bear interest at a floating rate *per annum* equal to LIBOR (determined as described herein) plus 6.25%. Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed.

Interest will accrue on the Aggregate Outstanding Amount of the Notes (i) in the case of the initial Interest Period, for the period from and including the Closing Date (or, with respect to any Borrowing under the Class A-1 Notes after the Closing Date, from the date of such Borrowing) to but excluding the first applicable Distribution Date and (ii) thereafter, for the period from and including the Distribution Date immediately following the immediately preceding Interest Period, to but excluding the next succeeding Distribution Date. Accrued and unpaid interest and Commitment Fee will be payable quarterly (or, in the case of the Class A-1 Notes, monthly) in arrears on each Distribution Date, if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein. See "Description of the Notes—Interest".

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

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

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

Furthermore, so long as any Class of Notes is outstanding, if the Class E Interest Diversion 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 certain fees and expenses and distributions on the Preference Shares will be used instead to redeem principal of the Class E Notes until the Class E Interest Diversion Test has been satisfied.

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

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

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payable" until the Distribution Date on which funds are available to pay such Class C Deferred Interest Amount in accordance with the Priority of Payments; *provided* that no accrued interest on the Class C Notes shall become Class C Deferred Interest Amounts unless Class A-1 Notes, Class A-2 Notes or Class B Notes are then outstanding.

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

So long as any Class A-1 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, "Class E Deferred Interest Amount" and, together with the Class C Deferred Interest Amount and the Class D Deferred Interest Amount, the "Deferred Interest Amounts") 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; *provided* that no accrued interest on the Class E Notes shall become Class E Deferred Interest Amount unless Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes or Class D Notes are then outstanding.

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Drawdown of the Class A-1 Notes:	Pursuant to a Class A-1 Note Funding Agreement dated September 26, 2006 (the "Class A-1 Note Funding Agreement") between the Issuer, the Co-Issuer, the Trustee, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as distribution agent, and the holders from time to time of the Class A-1 Notes (or the Liquidity Provider(s) with respect to any such holder) will commit to make monthly advances under the Class A-1 Notes, on and subject to the terms and conditions specified therein, provided that the aggregate principal amount advanced under the Class A-1 Notes will not exceed U.S.$1,800,000,000. Subject to compliance with certain borrowing conditions specified in the Class A-1 Note Funding Agreement and described herein under "Description of the Notes—Drawdown—Class A-1 Notes", the Issuer may borrow amounts under the Class A-1 Notes during the Commitment Period (as defined herein) on the 10th and 25th day of each calendar month (or if such day is not a Business Day, the next succeeding Business Day). The aggregate principal amount that may be borrowed on any day (other than any borrowing of the entire unused amount of the Commitments under the Class A-1 Note Funding Agreement) will be an integral multiple of U.S.$1,000,000 and at least U.S.$25,000,000. See "Description of the Notes—Drawdown—Class A-1 Notes". Prior to the Commitment Period Termination Date, each holder of Class A-1 Notes will be required to satisfy the Class A-1 Note Rating Criteria. If any holder of Class A-1 Notes fails at any time prior to the Commitment Period Termination Date to comply with the Rating Criteria, the Issuer will have the right (under the Class A-1 Note Funding Agreement) and the obligation (under the Indenture) to replace such holder with another entity that meets the Class A-1 Note Rating Criteria (by requiring the non-complying holder to transfer all of its rights and obligations in respect of the Class A-1 Notes to such other entity). See "Description of the Notes—Drawdown—Class A-1 Notes".
Commitment Fee accruing on the Class A-1 Notes:	A Commitment fee (the "Commitment Fee") will accrue on the unfunded Commitments for each day from and including the Closing Date to but excluding the date the unfunded Commitments are reduced to zero, at a rate per annum equal to 0.05%. The Commitment Fee will be payable monthly in arrears on each Distribution Date and will rank *pari passu* with the payment of interest on the Class A-1 Notes. Commitment Fee paid on any Distribution Date shall include only such Commitment Fee that has accrued, if any, during the related Interest Period for the Class A-1 Notes; any Commitment Fee that accrues subsequent to the end of the related Interest Period but prior to the Distribution Date will be paid on the following Distribution Date. The Commitment Fee will be computed on the basis of a 360-day year and the actual number of days elapsed. No Class of Notes other than the Class A-1 Notes will be entitled to a Commitment Fee. See "Description of the Notes—Commitment Fee on Class A-1 Notes".

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Distributions on the Preference Shares:	On each Distribution Date, to the extent funds are available therefor, Interest Proceeds will be released from the lien of the Indenture for payment to the Preference Share Paying Agent, but only after the payment of interest and Commitment Fee on the Notes and certain other amounts in accordance with the Priority of Payments. Any Interest Proceeds permitted to be released from the lien of the Indenture on any Distribution Date in accordance with the Priority of Payments and paid to the Preference Share Paying Agent will 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 under the Priority of Payments will be released from the lien of the Indenture and paid to the Preference Share Paying Agent for distribution to the Preference Shareholders, subject to provisions of The Companies Law (2004 Revision) of the Cayman Islands governing the declaration and payment of dividends, on a Distribution Date. Distributions will be made in cash (except certain liquidating distributions). See "Description of the Preference Shares—Distributions". If any Overcollateralization Test is not satisfied on the Determination Date related to any Distribution Date, then Interest Proceeds and, if necessary, Principal Proceeds that would otherwise be distributed to Preference Shareholders on the related Distribution Date (subject to the payment of certain other amounts prior thereto) will be used instead to repay principal of the Notes to the extent and as described herein. If a Rating Confirmation Failure occurs, Interest Proceeds that would otherwise be distributed to the Preference Shares 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 October, 2050 (with respect to each Class of Notes, the "Stated Maturity"). Each Class of Notes will mature at the applicable Stated Maturity unless redeemed or repaid prior thereto. The average life of each

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Class of Notes and the duration of the Preference Shares will be less than the number of years until the Stated Maturity of the Notes. See "Maturity, Prepayment and Yield Considerations" and "Risk Factors—Projections, Forecasts and Estimates".

Reinvestment Period: During the Reinvestment Period, Principal Proceeds and Uninvested Proceeds may be applied by the Collateral Manager on any Business Day to purchase Collateral Debt Securities, in each case, subject to compliance with the Eligibility Criteria. In addition, during the Reinvestment Period, Principal Proceeds that would otherwise be applied on a Distribution Date pursuant to the Priority of Payments, after the payment of all payments required to be made prior to clause (18) in the Principal Proceeds Waterfall, may be deposited in the Collection Account, to remain available for application to the purchase of substitute Collateral Debt Securities (subject to satisfaction of the Eligibility Criteria) by not later than the last day of the Due Period relating to the Distribution Date immediately following such Distribution Date.

As a result, except for payments of any Deferred Interest Amounts or payments resulting from the breach of an Overcollateralization Test, the Issuer is not expected to make any principal payments on the Notes from Principal Proceeds during the Reinvestment Period unless the Collateral Manager does not find sufficient reinvestment opportunities described under "Security for the Notes—Collateral Debt Securities" that are eligible for investment in accordance with the applicable Eligibility Criteria. See "Security for the Notes—Eligibility Criteria".

Principal Repayment: During the Reinvestment Period, Principal Proceeds will be used to pay principal of the Notes in accordance with the Priority of Payments to the extent not reinvested in (or held for reinvestment in) substitute Collateral Debt Securities. After the Reinvestment Period, all Principal Proceeds will be applied on each Distribution Date, after paying other amounts in accordance with the Priority of Payments, to pay principal of each Class of Notes. The amount and frequency of principal payments on a Class of Notes will depend upon, among other things, the amount and frequency of payments of principal and interest received with respect to the Collateral Debt Securities.

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

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Distribution Date after the end of the Reinvestment Period, from Principal Proceeds in accordance with the Priority of Payments to pay principal of each Class of Notes.

On any Distribution Date for which the Determination Date occurs during a Sequential Pay Period, principal of the Notes will be paid in direct order of seniority, with the principal of Class A-1 Notes being paid prior to the payment of principal of Class A-2 Notes, the principal of Class A-2 Notes being paid prior to the payment of the principal of Class B Notes, the principal of Class B Notes being paid prior to the payment of the principal of Class C Notes, 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; *provided*, *however*, that, notwithstanding the foregoing, (a) to the extent necessary to cure a breach of any Overcollateralization Test, Interest Proceeds will be applied as described in the third succeeding paragraph and (b) Interest Proceeds will be applied in accordance with the Priority of Payments to pay Deferred Interest Amounts.

On any Distribution Date for which the Determination Date occurs during a Pro Rata Pay Period, Principal Proceeds will be applied in accordance with the Priority of Payments, to pay (i) *first*, *pro rata*, the principal amount of the Class A-1 Notes, the Class A-2 Notes and the Class B Notes in an aggregate amount up to the Class A/B Pro Rata Principal Payment Cap, (ii) *second*, the principal amount of the Class C Notes in an aggregate amount up to the Class C Pro Rata Principal Payment Cap, (iii) *third*, the principal amount of the Class D Notes in an amount up to the Class D Pro Rata Principal Payment Cap, and (iv) *fourth*, the principal amount of the Class E Notes.

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 Measurement 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 on the Ramp-Up Completion Date. If the Sequential Pay Period commences, a Pro Rata Pay Period may not exist on any future Distribution Date.

To the extent necessary to cure a breach of an Overcollateralization Test (i) in the case of a breach of the Class E Interest Diversion Test, Interest Proceeds that would otherwise be used to make payments in respect of certain fees and expenses and distributions on the Preference Shares will be applied to pay principal of the Class E Notes until the Class E Interest Diversion Test has been satisfied, (ii) in the case of a breach of the Class D Overcollateralization Test, Interest Proceeds that would otherwise

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be used to make payments in respect of interest on the Class E Notes, certain fees and expenses and distributions on the Preference Shares will be used instead to pay principal of *first*, the Class D Notes, *second*, the Class C Notes, *third*, the Class B Notes, *fourth*, the Class A-2 Notes and *fifth*, the Class A-1 Notes and, if necessary to cure such breach, Principal Proceeds will be applied to pay principal of the Notes in direct order of seniority, until the Class D Overcollateralization Test has been satisfied, (iii) in the case of a breach of the Class C Overcollateralization Test, Interest Proceeds that would otherwise be used to make payments in respect of interest on the Class D Notes and Class E Notes, certain fees and expenses and distributions on the Preference Shares to pay principal of *first*, the Class C Notes, *second*, the Class B Notes, *third*, the Class A-2 Notes and, *fourth*, the Class A-1 Notes, and, if necessary to cure such breach, Principal Proceeds will be applied to pay principal of the Notes in direct order of seniority, until the Class C Overcollateralization Test has been satisfied and (iv) in the case of a breach of the Class A/B Overcollateralization Test, Interest Proceeds (and if necessary, Principal Proceeds) will be applied to pay principal of the Notes, in direct order of seniority, until the Class A/B Overcollateralization Test has been satisfied. 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 Notes will, on any Distribution Date, be subject to mandatory redemption in the event that any Overcollateralization Test applicable to any Class of Notes is not satisfied on the related Determination Date. Any such redemption will be effected from Interest Proceeds (and then Principal Proceeds, if needed) to the extent necessary to cause each applicable 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 be required to apply Interest Proceeds and, to the extent that Interest Proceeds are insufficient, Principal Proceeds to the repayment of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes, *fifth*, the Class D Notes and, *sixth*, the Class E Notes, to the extent specified

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by each relevant Rating Agency to obtain a Rating Confirmation.

Optional Redemption and Tax Redemption of the Notes:

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

In addition, upon the occurrence of a Tax Event, subject to the satisfaction of the Tax Materiality Condition, 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 66⅔% of the 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, interest and Commitment Fee 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 Sale Proceeds, together with all cash and Eligible Investments maturing on or prior to the scheduled Redemption Date credited to the Interest Collection Account, the Principal Collection Account, the Uninvested Proceeds Account, the Interest Reserve Account, the Semi-Annual Interest Account, the Expense Account, the Payment Account and any amounts in the Synthetic Security Counterparty Account in excess of any termination payment (other than any Defaulted Synthetic Termination Payment) payable to the Synthetic Security Counterparty ("Available Redemption Funds") are at least equal to an amount sufficient to pay (in accordance with the Priority of Payments) the Total Senior Redemption Amount.

Auction Call Redemption:

If the Notes have not been redeemed in full prior to the Distribution Date occurring in October, 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

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Shareholders, at the redemption price therefor. See "Description of the Preference Shares—Optional Redemption of the Preference Shares".

Security for the Notes:

Pursuant to the Indenture, the Notes (together with the Issuer's obligations to any Hedge Counterparty under any Hedge Agreement, to certain of the Synthetic Security Counterparties under the Defeased Synthetic Securities, to the Collateral Manager under the Collateral Management Agreement and to the Trustee under the Indenture), will be secured by: (a) the Custodial Account, the Collateral Debt Securities and the Equity Securities, (b) the Interest Collection Account, the Uninvested Proceeds Account, the Principal Collection Account, the Payment Account, the Expense Account, the Interest Reserve Account, the Semi-Annual Interest Account, each Synthetic Security Counterparty Account, each Synthetic Security Issuer Account, the Hedge Counterparty Collateral Account, all funds and other property standing to the credit of each such account, Eligible Investments purchased with funds standing to the credit of each such account and all income from the investment of funds therein, (c) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement 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 Excepted Property (collectively, the "Collateral"); *provided* that each Synthetic Security Counterparty Account (and all funds and other property credited thereto) will also be held by the Trustee for the benefit of the related Synthetic Security Counterparty. In the event of any realization on the Collateral, proceeds will be applied in accordance with the respective priorities established by the Priority of Payments. The security interest granted under the Indenture in each Synthetic Security Counterparty Account (and all funds and other property credited thereto), for the benefit of the Secured Parties, is subject to, and subordinate to the security interest and rights of, the relevant Synthetic Security Counterparty in and to such Synthetic Security Counterparty Account.

Combination Notes

The Combination Notes consist of a component representing U.S.$5,250,000 aggregate principal amount of Class C Notes (the "Class C Note Component") and a component representing 2,750 Preference Shares (the "Preference Share Component ").

Combination Notes will be offered and sold (i) in reliance on Regulation S (in respect of sales to non U.S. Persons in an offshore transaction) or (ii) in the United States pursuant to an exemption from the registration requirements of the Securities Act.

The Combination Notes do not bear a stated rate of interest.

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Instead, payments of interest on the Class C Note Component and dividends on the Preference Share Component will be paid to Combination Noteholders as interest.

All information relating to the Combination Notes is contained in the section of this Offering Circular entitled "Description of the Combination Notes".

Acquisitions and Dispositions of Collateral:

On the Closing Date, the Issuer will have purchased (or entered into agreements to purchase for settlement following the Closing Date) Collateral Debt Securities having an Aggregate Principal Balance (together with certain other amounts) of not less than U.S.$1,800,000,000. The Issuer expects that, no later than the Ramp-Up Completion Date, it will have purchased (or entered into agreements to purchase for settlement following the Ramp-Up Completion Date) Collateral Debt Securities having an Aggregate Principal Balance of at least U.S.$2,000,000,000.

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

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

No Uninvested Proceeds will be used to invest in Collateral Debt Securities after the Reinvestment Period, except to complete any purchase which the Issuer committed to make during the Reinvestment Period. Uninvested Proceeds may be used to pay principal of the Notes to the extent necessary to obtain a Rating Confirmation. During the Reinvestment Period, the Collateral Manager may reinvest Principal Proceeds (subject to the conditions specified under "Security for the Notes—Reinvestment Period") in substitute Collateral Debt Securities.

The Issuer will notify the Trustee, each Rating Agency and each Hedge Counterparty within seven Business Days after the Ramp-Up Completion Date (such notification, a "Ramp-Up Notice") and will request that each Rating Agency confirm to the Issuer that it has not reduced or withdrawn the rating assigned by it on the Closing Date to any Class of Notes (a "Rating Confirmation"); provided that, if

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the Ramp-Up Completion Date occurs on the Closing Date (as shall be evidenced by the schedule of Collateral Debt Securities and an accountant's report delivered on the Closing Date pursuant to the Indenture), then the initial assignment by Moody's and Standard & Poor's of their ratings to the Notes on the Closing Date shall constitute a Rating Confirmation and no further action shall be required in connection with the Ramp-Up Completion Date.

No reinvestment in substitute Collateral Debt Securities will be made by the Issuer after the last day of the Reinvestment Period; *provided*, *however*, that the Issuer may, after the last day of the Reinvestment Period, complete any purchase which it committed to make on or prior to the last day of the Reinvestment Period. Unless terminated earlier as described under "Description of the Notes—Reinvestment Period", the Reinvestment Period will end on the Distribution Date in October, 2011.

The entire aggregate principal amount of the Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes will be advanced on the Closing Date. Less than the entire aggregate principal amount of the Class A-1 Notes will be advanced on the Closing Date. During the period (the "Ramp-Up Period") from, and including, the Closing Date to, and including, the Ramp-Up Completion Date, the Issuer intends to borrow from the holders of the Class A-1 Notes on and subject to the terms and conditions in the Class A-1 Note Funding Agreement in order to purchase eligible Collateral Debt Securities (for inclusion in the Collateral) having an aggregate Principal Balance of not less than the aggregate Principal Balance necessary for the Issuer to comply with its obligations under the Indenture.

Liquidation of Collateral Debt Securities:

On the Distribution Date in October, 2050, or in connection with any Optional Redemption, Tax Redemption, Auction Call Redemption or Accelerated Maturity Date, the Collateral Debt Securities, Eligible Investments and other collateral will be liquidated, subject to certain limitations, and in accordance with certain procedures, which are set forth in the Indenture. All net proceeds from such liquidation and all available cash will be applied to the payment (in the order of priorities set forth under "Description of the Notes—Priority of Payments") of all (i) fees, (ii) expenses (including termination payments under any Hedge Agreements) and (iii) principal of and interest (including the Class C Deferred Interest Amount, the Class D Deferred Interest Amount, the Class E Deferred Interest Amount, Defaulted Interest and interest on Defaulted Interest, if any) and Commitment Fee on the Notes. Net proceeds from such liquidation and available cash remaining after all payments required pursuant to the Indenture and the payment of the costs and expenses of such liquidation, the establishment of adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer, the payment to the Preference Shareholders of the aggregate liquidation preference

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

The Issuer Charter provides that the Issuer will be wound up on the earliest to occur of (i) at any time on or after the date falling one year and two days after the Stated Maturity of the Notes, upon the shareholders' determination to dissolve the Issuer, (ii) at any time after the sale or other disposition of all of the Issuer's assets, upon the shareholders' determination to dissolve the Issuer, (iii) at any time after the Notes are paid in full, upon the shareholders' determination to dissolve the Issuer and (iv) on the date of a winding up pursuant to the provisions of or as contemplated by The Companies Law (2004 Revision) of the Cayman Islands as then in effect.

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

Plan of Distribution:

The Offered Securities are being offered for sale in an initial distribution by the Issuer and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS" or the "Initial Purchaser") to investors (the "Original Purchasers") (a) in the United States which are "Qualified Institutional Buyers" (each, a "Qualified Institutional Buyer"), as defined in Rule 144A ("Rule 144A") under the Securities Act of 1933, as amended (the "Securities Act"), or Accredited Investors within the meaning of Rule 501(a) (each, an "Accredited Investor") under the Securities Act and, in each case, Qualified Purchasers in reliance on an exemption from registration under the Securities Act, in each case acquiring the Offered Security for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A) and (b) outside the United States which are not U.S. persons, as such term is defined in Regulation S ("Regulation S") under the Securities Act (each, a "U.S. Person") in offshore transactions in reliance on Regulation S and, in each case, in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. Offered Securities offered for sale to a U.S. Person will be offered only to Qualified Purchasers. A "Qualified Purchaser" is (i) a "qualified purchaser" as defined in the Investment Company Act, (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 of the Investment Company Act or (iii) a company beneficially owned exclusively by one or more such "qualified purchasers" and/or "knowledgeable employees". Preference Shares will be placed by

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Cohen & Company Securities, LLC, subject to the same distribution limitations. See "Plan of Distribution" and "Transfer Restrictions".

Ratings:

It is a condition to the issuance of the Offered Securities that the Class A-1 Notes be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by 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-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 "A2" by Moody's and at least "A" 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 "Ba1" by Moody's and at least "BB+" by Standard & Poor's. 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. Class C Notes, Class D Notes and 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 C Deferred Interest Amount, Class D Deferred Interest Amount or Class E Deferred Interest Amount, as applicable. See "Description of the Notes—Form, Denomination, Registration and Transfer".

The Issuer is authorized to issue 8,600 Preference Shares, par value U.S.$0.01 per share. Each Preference Share will have a liquidation preference of U.S.$1,000 per share (the "Liquidation Preference").

The minimum number of Preference Shares to be issued to an investor will initially be 250, representing an aggregate liquidation preference of U.S.$250,000, or integral multiples of 1 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.

Form, Registration and Transfer of the Notes:

The Notes offered in reliance upon Regulation S ("Regulation S Notes") will be represented by one or more global notes ("Regulation S Global Notes") in fully registered form without interest coupons deposited with the Trustee as custodian for, and registered in the name of, The Depository Trust Company ("DTC")

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(or its nominee) initially for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Interests in the Regulation S Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and Indirect Participants (including Euroclear and Clearstream, Luxembourg).

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

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

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

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

No Note (or any interest therein) may be transferred, and neither the Trustee nor the Note Registrar will recognize any such transfer, unless (a) such transfer is made in a manner exempt from registration under the Securities Act, (b) such transfer is made in denominations greater than or equal to the minimum denomination

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therefor, (c) such transfer would not have the effect of requiring either of the Co-Issuers or the Collateral to register as an investment company under the Investment Company Act and (d) the transferee is able to make all applicable certifications and representations required by the relevant transfer certificate attached as an exhibit to the Indenture (if the Indenture requires that a transfer certificate be delivered in connection with such a transfer). Notwithstanding the foregoing, (x) an owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification; *provided* that (1) such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected through Euroclear or Clearstream, Luxembourg in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures and (2) any transfer not effected in an offshore transaction in accordance with Rule 904 of Regulation S may be made only upon provision to the Note Registrar of written certification from the transferee and transferor in the form provided for in the Indenture and (y) an owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification. See "Description of the Notes—Form, Denomination, Registration and Transfer" and "Transfer Restrictions".

No Class D Note or Class E 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 constitutes "plan assets" under Section 401(c) of ERISA) and a wholly owned subsidiary of such a general account. Each purchaser of a Class D Note or Class E Note or an interest therein, and each transferee thereof, will be deemed to represent that it is not a Benefit Plan Investor and that it will not transfer such interest except in compliance with the transfer restrictions set forth in the Indenture including the requirement that the transferee is not a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitutes "plan assets" under Section 401(c) of ERISA and a wholly owned subsidiary of such a general account). See "Description of the Notes—Form, Denomination, Registration and Transfer", "ERISA Considerations" and "Transfer Restrictions".

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner 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 (unless such beneficial owner is an Accredited Investor that purchased such Restricted Note (or any interest therein) directly from the Co-Issuers or the Initial Purchaser) and also a Qualified Purchaser, then

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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 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, the Trustee, on behalf of and at the expense of the Issuer, shall 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 (A) is not a U.S. Person (in the case of a person holding its interest through a Regulation S Note) or (B) in the case of a Restricted Note, 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.

Form, Registration and Transfer of the Preference Shares:

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

The Preference Shares offered by the Issuer outside the United States will be offered in reliance upon Regulation S ("Regulation S Preference Shares"). Regulation S Preference Shares will be represented by either (i) one or more global preference shares ("Regulation S Global Preference Shares") in fully registered form without interest coupons deposited with the Preference Share Paying Agent as custodian for, and registered in the name of, DTC (or its nominee) and deposited with or on behalf of DTC initially for the accounts of Euroclear, and/or Clearstream, Luxembourg or (ii) in the limited circumstances described herein, preference share certificates in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof ("Regulation S Definitive Preference Shares"). Interests in the Regulation S Global

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

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

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

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

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

In addition, no Reg Y Institution may transfer any Preference Shares held by it to any person other than (a) a person or group of persons under common control that controls the Issuer without reference to any Preference Shares transferred to such person or group by such Reg Y Institution (a "Reg Y Controlling Party"), (b) a person or persons designated by a Reg Y 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 "Description of the Preference Shares—Form, Registration and Transfer".

Listing: Application will be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market, and application will be made to the Channel Islands Stock Exchange ("CISX") to admit the Preference Shares to the official list of the CISX. There can be no assurance that such applications will be granted. No application will be made to list the Notes or the Preference Shares on any other stock exchange. If any 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. If any Preference Shares are admitted to the official list of the CISX, the Issuer may at any time terminate the listing of such Preference Shares, if the Issuer determines that the maintenance of such listing would impose any material obligation or expense on the Issuer (in excess of the amount anticipated on the Closing Date). See "Listing

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	and General Information".
Irish Listing Agent; Irish Paying Agent:	McCann FitzGerald Listing Services Limited is expected to be the Irish Listing Agent and Custom House Administration and Corporate Services Limited is expected to be the Irish Paying Agent for the Notes (in such capacities, the "Irish Listing Agent" and the "Irish Paying Agent", respectively).
CISX Sponsor:	Ogier Corporate Finance Limited is expected to be the CISX Sponsor with respect to the listing of the Preference Shares (the "CISX Sponsor").
Governing Law:	The Notes, the Indenture, the Collateral Management Agreement, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement, the initial Hedge Agreement, the Investor Application Forms and the Purchase Agreement will be governed by, and construed in accordance with, the laws of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by, and construed in accordance with, the laws of the Cayman Islands.
Tax Matters:	See "Income Tax Considerations".
Benefit Plan Investors:	See "ERISA Considerations".

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RISK FACTORS

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

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

Limited Recourse Obligations. The Notes are limited recourse obligations of the Co-Issuers. The Notes are payable solely from the Collateral Debt Securities and other Collateral pledged by the Issuer to secure the Notes. None of the security holders, members, officers, directors, managers or incorporators of the Issuer, the Co-Issuer, the Trustee, any Hedge Counterparty or any of their respective guarantors, the Collateral Manager, the Administrator, any Rating Agency, the Share Trustee, the Initial Purchaser, any of their respective affiliates and any other person or entity will be obligated to make payments on the Notes. Consequently, the Noteholders must rely solely on amounts received in respect of the Collateral Debt Securities and other Collateral pledged to secure the Notes for the payment of principal thereof and interest and Commitment Fee thereon. There can be no assurance that the distributions on the Collateral Debt Securities and other Collateral pledged by the Issuer to secure the Notes will be sufficient to make payments on any Class of Notes, in particular after making payments on more Senior Classes of Notes and certain other required amounts ranking Senior to such Class. The Issuer's ability to make payments in respect of any Class of Notes will be constrained by the terms of the Notes of Classes more Senior to such Class and the Indenture. If distributions on the Collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Collateral, the obligations of the Co-Issuers to pay such deficiencies will be extinguished. The Preference Shares will be part of the issued share capital of the Issuer and will not be secured pursuant to the lien of the Indenture.

Subordination of Each Class of Subordinate Notes. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest and Commitment Fee on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full. Except as otherwise described in, and subject to, the Priority of Payments with respect to Interest Proceeds, no payment of principal of any Class of Notes will be made during the Sequential Pay Period from Principal Proceeds until all principal of, and all accrued and unpaid interest and Commitment Fee 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 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 Class C Notes, the Class D Notes or the Class E Notes on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class C Notes, the Class D Notes or the Class E Notes that is not paid when due by

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operation of the Priority of Payments will be deferred. In the event of any realization on the Collateral, proceeds will be allocated to the Notes and other amounts in accordance with the Priority of Payments prior to any distribution to the Preference Shareholders. See "Description of the Notes—The Indenture" and "—Priority of Payments". Remedies pursued by the holders of the Class or Classes of Notes entitled to determine the exercise of such remedies could be adverse to the interest of the holders of the other Classes of Notes. Generally, to the extent that any losses are suffered by any of the holders of any Offered Securities, such losses will be borne, *first*, by the holders of the Preference Shares, *second*, by the holders of the Class 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 and, *seventh*, by the holders of the Class A-1 Notes.

On any Distribution Date following the occurrence of an Event of Default and the acceleration of the maturity of the Notes (each such Distribution Date, unless such 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, Commitment Fee 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 has been paid in full. The Collateral will not be liquidated unless one of the three conditions described under "Description of the Notes—The Indenture—Events of Default" is satisfied. If any such condition is satisfied and the Collateral is liquidated, the proceeds of the Collateral will be applied to pay interest, Commitment Fee 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, and in any event 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 and amounts owed to the Collateral Manager in respect of the Management Fee, and $66^2/_3$% of the Aggregate Outstanding Amount of the Controlling Class approves of such determination by the Trustee, which approval may or may not be given, (ii) the Trustee receives a direction to liquidate the Collateral from holders of $66^2/_3$% of the Aggregate Outstanding Amount of each Class of Notes, voting as a separate Class, and each Hedge Counterparty, any of which may determine not to direct such liquidation or (iii) so long as there is a Controlling Beneficiary, the Controlling Beneficiary directs the sale and liquidation of the Collateral if (A) an Event of Default has occurred and is continuing by reason of a payment default in respect of the Class A-1 Notes or (B) an Event of Default has occurred and is continuing by reason of the failure of the Class A Sequential Pay Ratio to be at least 100% and, in either case, the Holders of at least $66^2/_3$% in Aggregate Outstanding Amount of the Class A Notes consent to such direction.

The Notes will Continue to be Paid in Accordance With the Priority of Payments Following an Event of Default. Following an Event of Default and acceleration of the maturity of the Notes, payments of interest and Commitment Fee on the Notes shall continue to be made in accordance with the Priority of Payments. As a result, interest on Subordinate Classes of Notes (as well as other amounts set forth in the Priority of Payments) will continue to be paid prior to the payment in full of the principal amount of Senior Classes of Notes, except as provided in the Priority of Payments in the case of a breach of an Overcollateralization Test.

Accrual of Interest and Commitment Fee on the Class A-1 Notes. The Interest Period with respect to the Class A-1 Notes varies from that with respect to the other Classes of Notes. As a result, interest and Commitment Fee in respect of the ClassA-1 Notes will be paid monthly. See "Description of the Notes—Interest".

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Payments in Respect of the Preference Shares. The Issuer, pursuant to the Indenture, has pledged substantially all of its assets to secure the Notes and certain other obligations of the Issuer. The proceeds of such assets will only be available to make payments in respect of the Preference Shares as and when such proceeds are released in accordance with the Priority of Payments. There can be no assurance that, after payment of principal of and interest and Commitment Fee on the Notes and other fees and expenses of the Co-Issuers in accordance with the Priority of Payments, the Issuer will have funds remaining to make distributions in respect of the Preference Shares. See "Description of the Notes—Priority of Payments". 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 (i) with the consent of the Hedge Counterparties or (ii) at the direction of the Controlling Beneficiary, 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 and Commitment Fee on the Notes has been paid in full. To the extent that any losses are suffered by any of the holders of any Offered Securities, such losses will be borne in the first instance by the holders of the Preference Shares.

Cayman Islands law provides that dividends may only be paid by the Issuer if the Issuer has funds lawfully available for such purpose. Dividends may be paid out of profit and out of the Issuer's share premium account (which includes subscription monies in excess of the par value of each share); *provided* that the Issuer will be solvent immediately following the date of such payment.

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

Pro Rata Payment of Notes. On any Distribution Date during a Pro Rata Pay Period, Principal Proceeds not otherwise applied pursuant to the Principal Proceeds Waterfall 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, amounts that would otherwise be distributed as dividends to the holders of the Preference Shares on any Distribution Date may be paid to other investors in accordance with the Priority of Payments. Each prospective purchaser should consider that any such adverse developments could result in its failure to recover fully its initial investment in the Preference Shares.

Volatility of the Preference Shares. The Preference Shares represent a leveraged investment in the underlying Collateral. Therefore, it is expected that changes in the value of the Preference Shares will be greater than the change in the value of the underlying Collateral Debt Securities, which themselves are subject to credit, liquidity, interest rate and other risks. Utilization of leverage is a speculative investment technique and involves certain risks to investors. The indebtedness of the Issuer under the Notes will

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result in interest expense and other costs incurred in connection with such indebtedness that may not be covered by proceeds received from the Collateral. The use of leverage generally magnifies the Issuer's opportunities for gain and risk of loss.

Ongoing Commitments—Class A-1 Notes. All of the Class A-1 Notes will be issued on the Closing Date, but only U.S.$1,400,000,000 of the principal amount of the Class A-1 Notes will be advanced on the Closing Date. Holders of the Class A-1 Notes will be obligated during the Commitment Period, subject to compliance by the Issuer with certain borrowing conditions specified in the Class A-1 Note Funding Agreement, to advance funds to the Issuer until the aggregate principal amount advanced under the Class A-1 Notes equals the aggregate amount of Commitments to make advances under the Class A-1 Note Funding Agreement; provided that (i) the aggregate amount advanced under the Class A-1 Notes may not in any event exceed U.S.$1,800,000,000 and (ii) at the time of and immediately after giving effect to such Borrowing, no Default has occurred and is continuing or would result from such Borrowing. See "Description of the Notes—Drawdown—Class A-1 Notes".

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

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

The market value of the Collateral Debt Securities generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the Collateral Debt Securities or, with respect to Synthetic Securities, of the obligors on or issuers of the Reference Obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The current interest rate spreads over LIBOR (or in the case of fixed rate Asset-Backed Securities, over the applicable U.S. Treasury Benchmark) on Asset-Backed Securities are at very low levels (compared to the levels during the past ten years); in the event that such interest rate spreads widen after the Closing Date, the market value of the Collateral Debt Securities is likely to decline and, in the case of a substantial spread widening, could decline by a substantial amount.

Although the Issuer expects that the Collateral Debt Securities purchased by it will, on the Ramp-Up Completion Date, satisfy the Collateral Quality Tests and Overcollateralization Tests described herein, there is no assurance that such tests will be satisfied on such date. Failure to satisfy such tests on the Ramp-Up Completion Date, or failure to satisfy an Overcollateralization Test after the Ramp-Up Completion Date, may result in the repayment or redemption of all or a portion of the Notes (according to

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the priority specified in the Priority of Payments). See "Description of the Notes—Mandatory Redemption".

During the Reinvestment Period, subject to the conditions described under "Security for the Notes—Reinvestment Period" and "Security for the Notes—Dispositions of Collateral Debt Securities", the Collateral Manager may sell (or in the case of a Synthetic Security, exercise its right, if any, to terminate) Collateral Debt Securities, including Discretionary Sales and sales of Credit Improved Securities and Credit Risk Securities, and reinvest the Sale Proceeds thereof in substitute Collateral Debt Securities in accordance with the Eligibility Criteria. After the end of the Reinvestment Period, the Issuer will not reinvest Sale Proceeds in Collateral Debt Securities, although the Issuer may complete after the last day of the Reinvestment Period any purchases of Collateral Debt Securities which it committed to make on or prior to the last day of the Reinvestment Period after the last day of the Reinvestment Period. In addition, after the Reinvestment Period, the Collateral Manager will not be entitled to sell Collateral Debt Securities (other than Defaulted Securities, Written Down Securities, Credit Risk Securities and Credit Improved Securities or Equity Securities) prior to the maturity or early redemption of the Notes except in connection with an Optional Redemption, an Auction Call Redemption, a Tax Redemption or an Accelerated Maturity Date or the winding up of the Issuer following the payment in full of the Notes.

The Issuer may acquire Collateral Debt Securities which (or enter into Synthetic Securities the Reference Obligations of which) provide for periodic payments of interest in cash less frequently than quarterly, provided that the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities related thereto) does not exceed 10% of the Net Outstanding Portfolio Collateral Balance. There will be no mechanism in the Indenture to permit the Issuer to allocate the related Interest Proceeds to more than one Due Period; therefore, unless the Issuer enters into a Hedge Agreement to distribute the payments with respect to such security over more than one Due Period, such Interest Proceeds will be distributed on the Distribution Date following the Due Period during which such Interest Proceeds were received, which will reduce Interest Proceeds available for distribution on the Notes and Preference Shares on subsequent Distribution Dates.

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

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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 Offered 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 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 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 securitization 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 play 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 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.

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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.

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

Synthetic Security Collateral may also consist of Asset-Backed Securities. When the Issuer acquires or enters into a Synthetic Security, the Eligibility Criteria will generally be applicable to the Asset-Backed Security that is the Reference Obligation of the Synthetic Security, rather than to any Asset-Backed Securities purchased as Synthetic Security Collateral.

Residential Mortgage-Backed Securities. The Collateral Debt Securities are expected to 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

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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.

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 due to 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.

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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, 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 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

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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 and Commitment Fee on the Notes and to make distributions on the Preference Shares.

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.

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

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

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

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

(4) the Fair Credit Reporting Act, which 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;

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

(7) the Alternative Mortgage Transaction Parity Act of 1982, which 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 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 mortgages 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, the Servicemembers' Civil Relief Act of 2003, as amended 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 may consist of commercial mortgage-backed securities meeting the Eligibility Criteria described herein ("CMBS"). In addition, a portion of the Reference Obligations under the Synthetic Securities may consist of CMBS.

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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 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.

CDO Obligations. A significant portion of the Collateral Debt Securities acquired by the Issuer will consist of CDO Obligations. "CDO Obligations" are Asset-Backed Securities issued by an entity (a "CDO") formed for the purpose of holding or investing and reinvesting primarily in a pool (each such pool, an "Underlying Portfolio") of asset-backed securities, including collateralized debt obligations, commercial or industrial loans or obligations, corporate debt securities, or trust preferred securities (or any combination of the foregoing) and/or one or more synthetic securities or credit default swaps which reference such securities, loans or obligors thereon, subject to specified investment and management criteria.

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

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general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

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

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

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

CDO Obligations are subject to interest rate risk. The Underlying Portfolio of an issue of CDO Obligations often will include assets that bear interest at a fixed or floating rate of interest, and while the CDO Obligations issued by such issuer also may bear interest at fixed or floating rates, the proportions of a CDO issuer's assets bearing interest at fixed and floating rates will typically not match the proportions to which such CDO issuer's liabilities bear interest at fixed and floating rates. As a result, there could be a floating/fixed rate or basis mismatch between such CDO Obligations and Underlying Portfolios which bear interest at a fixed rate, and there may be a timing or basis mismatch between the CDO Obligations and Underlying Portfolios that bear interest at a floating rate as the interest rate on such floating rate Underlying Portfolios may adjust more frequently or less frequently, on different dates and based on different indices, than the interest rates on the CDO Obligations. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDO Obligations.

The CDO Obligations which the Issuer will purchase may be subordinated to other classes of securities issued by each respective issuer thereof. CDO Obligations that are not part of the most senior tranche(s) of the securities issued by the issuer thereof may allow for the deferral of the payment of interest on such CDO Obligations. The CDO Obligations that the Collateral Manager anticipates will form part of the Collateral are expected to include both senior and mezzanine debt issued by the related CDO Obligation issuers. The CDO Obligations that are mezzanine debt will have payments of interest and principal that are subordinated to one or more classes of notes that are more senior in the related

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issuer's capital structure, and generally will allow for the deferral of interest subject to the related issuer's priority of payments. To the extent that any losses are incurred by the issuer thereof in respect of its CDO Obligations, such losses will be borne by holders of the mezzanine tranches before any losses are borne by the holders of senior tranches. In addition, if an event of default occurs under the applicable indenture, as long as any senior tranche of CDO Obligations is outstanding, the holders of the senior tranche thereof may be entitled to determine the remedies to be exercised under the indenture, which could be adverse to the interests of the holders of the mezzanine tranches (including the Issuer).

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

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

In order to purchase and hold CDO Obligations, the Issuer must satisfy at all times the investor qualifications in the indenture for each such CDO and in applicable securities laws. Generally, such indentures and applicable securities laws require that the Issuer either be a Qualified Institutional Buyer which is also a Qualified Purchaser or that it be a non-U.S. Person (as defined in Regulation S) which is also not a U.S. resident for purposes of the Investment Company Act. There can be no assurance that the Issuer will satisfy these requirements. In the event that the Issuer does not satisfy these requirements at any time, it will not be able to purchase CDO Obligations, and it may be required under the indenture for the applicable CDO to sell any CDO Obligation which it previously purchased; any such "forced sale" by the Issuer is likely to be made at a loss.

Synthetic Security Collateral may consist of CDO Obligations. When the Issuer enters into (or purchases) a Synthetic Security, the Eligibility Criteria will generally be applicable to the Reference Obligation, rather than to any CDO Obligations purchased as Synthetic Security Collateral.

ABS REIT Debt Securities. A portion of the Collateral Debt Securities may consist of ABS REIT Debt Securities or Synthetic Securities the Reference Obligations of which are ABS REIT Debt Securities. ABS REIT Debt Securities will consist of obligations of real estate investment trusts ("REITs"), or qualified REIT subsidiaries meeting the eligibility criteria described herein.

Investments in ABS REIT Debt Securities involve special risks. ABS REIT Debt Securities are generally unsecured and may be subordinated to other obligations of the issuer thereof. In particular, REITs and qualified REIT subsidiaries (all discussion concerning the risks relating to REITs herein being generally applicable to such subsidiaries) generally are permitted to invest solely in real estate or real estate related assets and are subject to the inherent risks associated with such investments. Consequently, the financial condition of any REIT may be affected by the risks described above with respect to commercial mortgage loans and mortgage-backed securities and similar risks, including (i) risks of delinquency and foreclosure and risks of loss in the event thereof, (ii) the dependence upon the successful operation of and net income from real property, (iii) risks generally incident to interests in real property, including those described above, (iv) risks that may be presented by the type and use of a particular commercial property and (v) the difficulty of converting certain property to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable for any reason. Moreover, REITs must continue to satisfy certain U.S. Federal income tax requirements related to real estate investment trust qualifications. Failure of an underlying issuer in any taxable year to qualify

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as such will render such underlying issuer subject to tax on its taxable income at regular corporate rates. The additional tax liability of an underlying issuer for the year or years involved would reduce the net earnings of such underlying issuer and would adversely affect its ability to make payments on the REIT Debt Securities of which it is an issuer.

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

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

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

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

Hybrid Securities. The Issuer will acquire Hybrid Securities. Hybrid Securities are Collateral Debt Securities that pass through interest and principal on underlying collateral ("Underlying Hybrid Collateral") generally consisting of residential mortgage loans which initially bear interest at a fixed rate and, after a specified initial period, convert to bearing interest at a floating rate that resets periodically

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

Synthetic Securities. A substantial portion of the Collateral Debt Securities will consist of Synthetic Securities the Reference Obligations of which are Asset-Backed Securities. Such Synthetic Securities may be in the form of Credit Derivative Transactions entered into by the Issuer with Synthetic Security Counterparties on or after the Closing Date or Credit Linked Securities acquired by the Issuer on or after the Closing Date.

Investments in Synthetic Securities present risks in addition to those resulting from direct purchases of the related Reference Obligations. In the case of Synthetic Securities, the Issuer will usually have a contractual relationship only with the Synthetic Security Counterparty or the Synthetic Security Issuer, as applicable, and not the Reference Obligor on the Reference Obligation. The Issuer generally will have no right directly to enforce compliance by the Reference Obligor with the terms of either the Reference Obligation or any rights of set-off that a holder of a Reference Obligation may have against the Reference Obligor, nor will the Issuer generally have any voting or other consensual rights of ownership with respect to the Reference Obligation. The Issuer will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

In the event of the insolvency of a Synthetic Security Issuer with respect to a Credit Linked Security, the Issuer will not have any claim or title to the related Reference Obligation and, except to the extent such Credit Linked Security is collateralized, will be treated as a general creditor of such Synthetic Security Issuer. In the event of the insolvency of a Synthetic Security Counterparty with respect to a Credit Derivative Transaction or a Credit Linked Security (if the payments on such Credit Linked Security depend on payments by such Synthetic Security Counterparty to the Synthetic Security Issuer thereof), neither the Issuer nor (in the case of any such Credit Linked Security) the Synthetic Security

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Issuer will have any claim of title with respect to the related Reference Obligation and, except to the extent the obligations of such Synthetic Security Counterparty are collateralized, the Issuer or (in the case of any such Credit Linked Security) the Synthetic Security Issuer will be treated as a general creditor of the Synthetic Security Counterparty. Consequently, in the case of a Credit Derivative Transaction, the Issuer will be subject to the credit risk of the Synthetic Security Counterparty as well as that of the Reference Obligor. In the case of a Credit Linked Security, the Issuer will be subject to the credit risk of the Synthetic Security Issuer and, if the payments on such Credit Linked Security depend on payments by a Synthetic Security Counterparty to the Synthetic Security Issuer thereof, such Synthetic Security Counterparty, as well as that of the Reference Obligor. As a result, concentrations of Credit Derivative Transactions entered into with any one Synthetic Security Counterparty, and Credit Linked Securities the payments on which depend on payments by any one Synthetic Security Counterparty, will subject the Offered Securities to an additional degree of risk with respect to defaults by such Synthetic Security Counterparty as well as by the related Reference Obligors.

Payments of principal or interest on Credit Linked Securities may depend on payments received by counterparties other than a Synthetic Security Counterparty, including counterparties in respect of total return swaps, assets swaps or other derivative transactions with respect to collateral held by the Synthetic Security Issuer and counterparties in respect of interest rate hedges or basis swaps. Consequently, the Issuer will be subject to the credit risk of such counterparties. In some circumstances, such counterparties may be the same entity as the Synthetic Security Counterparty. In the case of the Credit Linked Securities that are expected to be purchased by the Issuer on the Closing Date, Merrill Lynch International, an affiliate of the Initial Purchaser, will be the Synthetic Security Counterparty, the counterparty under an asset swap agreement with the related Synthetic Security Issuer and the counterparty in respect of a basis swap agreement with the related Synthetic Security Issuer.

Synthetic Security Counterparties. In the case of (x) any Credit Derivative Transaction and (y) any Credit Linked Security the payments on which depend on payments by a Synthetic Security Counterparty to the Synthetic Security Issuer thereof, the Issuer will be subject to the credit risk of the Synthetic Security Counterparty. The Synthetic Security Counterparty may be entitled to make determinations regarding the related Reference Obligations (including determinations as to whether a "credit event" or "floating amount event" has occurred with respect thereto). Under "pay as you go" credit default swaps, including the credit default swap being entered into by the related Synthetic Security Issuer in connection with the Credit Linked Securities being acquired by the Issuer on the Closing Date, if there is a failure to pay principal of the related Reference Obligation or a writedown of the related Reference Obligation, the Synthetic Security Counterparty has the option of electing to settle physically the transaction by delivering such Reference Obligation to the Issuer (or, in the case of a Credit Linked Security, the Synthetic Security Issuer) or demanding that the Issuer (or, in the case of a Credit Linked Security, the Synthetic Security Issuer) make a floating payment in respect thereof. In addition, the Synthetic Security Counterparty will generally act as calculation agent in respect of calculations and other determinations to be made in respect of the related credit derivative transactions. The performance by a Synthetic Swap Counterparty of its duties as calculation agent, which in the case of certain "pay as you go" credit default swaps may include a determination of whether an implied writedown has occurred, may result in potential and actual conflicts of interest between such Synthetic Security Counterparty acting as calculation agent for both parties in respect of such credit derivative transaction and its own economic interests as a party to such transaction.

A Synthetic Security Counterparty or its affiliates may deal in Reference Obligations, enter into other credit derivative transactions involving reference entities or reference obligations that may include the Reference Obligors or the Reference Obligations (including credit derivatives relating to Reference Obligations), may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with, Reference Obligors or other

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entities having obligations relating to Reference Obligors, and may act with respect to such business in the same manner as if the Synthetic Securities did not exist, regardless of whether any such relationship or action might have an adverse effect on any Reference Obligation (including, without limitation, any action which might constitute or give rise to a "credit event" or "floating amount event") or on the position of any Synthetic Security Issuer party to such credit derivative transaction, the Issuer, the holders of the Offered Securities, or any other party to the transactions described herein or otherwise. In addition, Synthetic Security Counterparties or their affiliates may from time to time possess interests in Reference Obligors and/or Reference Obligations allowing such Synthetic Security Counterparty or its affiliates (or any investment manager or adviser acting on its or their behalf), to exercise voting or consent rights with respect thereto, and such rights may be exercised in a manner that may be adverse to the interests of the holders of the Offered Securities or that may affect the market value of Reference Obligations and/or the amounts payable thereunder. A Synthetic Security Counterparty or one of its affiliates may, whether by reason of the types of relationships described herein or otherwise, at the date hereof or any time hereafter, be in possession of information in relation to any Reference Obligor or Reference Obligation that is or may be material and that may or may not be publicly available or known to the Issuer, the Trustee or the holders of the Offered Securities. In such circumstances, such Synthetic Security Counterparty will be under no obligation to disclose such information to the Issuer, the Trustee or the holders of the Offered Securities.

In taking any action with respect to Synthetic Securities, a Synthetic Security Counterparty will be acting in its own commercial interests and not as agent or fiduciary for, or in any other capacity on behalf of, the Issuer, the Initial Purchaser, the Collateral Manager or the holders of the Offered Securities (and, in the case of a Credit Linked Security, the Synthetic Security Issuer thereof). The interests of a Synthetic Security Counterparty will generally not be aligned with those of the holders of the Offered Securities. No Synthetic Security Counterparty will have any duty whatsoever to consider the effect of its actions or failure to take action on the holders of the Offered Securities.

It is anticipated that Merrill Lynch International, an affiliate of the Initial Purchaser will act as the Synthetic Security Counterparty with respect to all of the Synthetic Securities (which will be in the form of Credit Linked Securities) acquired by the Issuer on the Closing Date and the Initial Purchaser or one or more affiliates of the Initial Purchaser may act as Synthetic Security Counterparty with respect to Synthetic Securities acquired or entered into after the Closing Date, which relationship may create certain conflicts of interest. Furthermore, the Initial Purchaser or an affiliate of the Initial Purchaser, may in its role as Synthetic Security Counterparty with respect to all or a portion of the Synthetic Securities entered into or acquired by the Issuer, manage a pool of Reference Obligations with respect to such Synthetic Securities and make determinations regarding such Reference Obligations. See "—Certain Potential Conflicts of Interest—Conflicts of Interest Involving the Initial Purchaser".

Interest Shortfall Provisions. It is anticipated that the credit default swaps entered into by the related Synthetic Security Issuer with respect to the Credit Linked Securities acquired by the Issuer on the Closing Date and other Credit Linked Securities or Credit Derivative Transactions acquired or entered into by the Issuer after the Closing Date will be based on "pay as you go" credit default swaps. Such credit default swaps generally provide that a shortfall in the interest paid by the Reference Obligor in respect of the related Reference Obligation will reduce dollar-for-dollar the fixed amount payable by the buyer of protection with respect to such Synthetic Security, irrespective of whether such shortfall would result in a default under the applicable Underlying Instruments. Such shortfall may be calculated without taking into account any provisions providing for the limitation on interest otherwise payable pursuant to an "available funds cap", the operation of a priority of payments, the capitalization or deferral of interest or the extinguishing or reduction of such payments or distributions.

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Many RMBS Securities are structured with a provision pursuant to which the expected interest under such securities are reduced by a weighted average coupon or weighted average rate cap that limits or decreases the interest rate or amount payable in respect of such securities. The forms of "pay as you go" credit default swaps applicable to such securities currently provide for an election as to whether such provisions are applied for purposes of determining interest shortfalls. If such provisions are applied, such credit default swaps are less likely to experience interest shortfalls. It is anticipated that such provisions will not be applied under many "pay as you go" credit default swaps with respect to Synthetic Securities acquired or entered into by the Issuer, including the Credit Linked Securities acquired by the Issuer on the Closing Date, in which case the Issuer will bear the risk of interest shortfalls in respect of Reference Obligations under such Synthetic Securities without regard to any weighted average rate cap or similar provision.

In addition, such forms of credit default swaps may provide (particularly where the Reference Obligation is an RMBS Security) that the occurrence of an increase in the coupon payable on a Reference Obligation (as a result of the Reference Obligor or a third party exercising a redemption right or otherwise) will result in a corresponding increase in the fixed amount payable by the protection buyer. However, if such an increase occurs, the buyer of protection will generally have the right to terminate the related credit default swap. Accordingly, a Synthetic Security Counterparty may be entitled to terminate Synthetic Securities acquired or entered into by the Issuer as a result of such coupon increases, which could result in terminations of such Synthetic Securities in circumstances that are disadvantageous to the Issuer. See "—Illiquid Market for Credit Default Swaps".

Limited Information Regarding Reference Obligations. No information on the credit quality of the Reference Obligations is provided herein. The holders of Offered Securities will not have the right to obtain from the Issuer, the Collateral Manager, the Initial Purchaser, the Trustee, any Synthetic Security Counterparty or any Synthetic Security Issuer information on the Reference Obligations or information regarding any obligation of any Reference Obligor (other than the limited information set forth in the monthly reports delivered pursuant to the Indenture). The Synthetic Security Counterparties and Synthetic Security Issuers will have no obligation to keep the Issuer, the Trustee or the holders of Offered Securities informed as to matters arising in relation to any Reference Obligation, including whether or not circumstances exist under which there is a possibility of the occurrence of a "credit event" or a "floating amount event". None of the Issuer, the Trustee and the holders of the Offered Securities will have the right to inspect any records of a Synthetic Security Counterparty or Synthetic Security Issuer.

Illiquid Market for Credit Default Swaps. The market for credit default swaps on Asset Backed Securities has only existed for a few years and is not liquid (as compared to the market for credit default swaps on investment grade corporate reference entities). "Pay as you go" credit default swaps, on which payments under the Credit Linked Securities purchased by the Issuer on the Closing Date will be based, have only recently been introduced into the market. The current fixed rate that a buyer of protection pays under credit default swaps for Reference Obligations that are Asset Backed Securities are at very low levels (as compared to the levels during the past five years). This results in part from the fact that the current interest rate spreads over LIBOR (or, in the case of fixed rate Asset Backed Securities, over the applicable U.S. swap rate) 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 or the prevailing fixed rates paid by buyers of protection on credit default swaps on Asset Backed Securities increase after the Closing Date, the amount of the termination payment for which the Issuer will be exposed under a Synthetic Security could increase by a substantial amount. If the Issuer is exposed to substantial termination payments in order to liquidate or terminate Synthetic Securities, it may be difficult for the Issuer to dispose of such Synthetic Securities in connection with the Collateral Manager's management of the portfolio and it may be difficult to satisfy the conditions for a redemption of the Notes or for a liquidation of the portfolio after an Event of Default.

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Changes in the Terms and Documents for Credit Default Swaps. It is anticipated that the credit default swaps entered into by the related Synthetic Security Issuer with respect to the Credit Linked Securities acquired by the Issuer on the Closing Date and other Credit Linked Securities or Credit Derivative Transactions acquired or entered into by the Issuer after the Closing Date will be based on the applicable forms of "pay as you go" credit default swap confirmations relating to CDO Securities, RMBS Securities and CMBS Securities, published by the International Swaps and Derivatives Association ("ISDA"), that are currently used in the market. The credit default swaps entered into with respect to the Credit Linked Securities acquired by the Issuer on the Closing Date will, and other credit default swaps entered into by the Issuer or relating to other Credit Linked Securities acquired by the Issuer may, be modified from the forms of confirmation published by ISDA in order to take into account structural considerations and Rating Agency requirements. See "Description of the Collateral—Synthetic Securities—Initial Synthetic Securities". However, the Issuer may acquire or enter into Synthetic Securities that are based on other forms of credit default swaps or different types of derivative transactions. In such event, the terms of the Synthetic Securities may be materially different from the terms of the Synthetic Securities entered into on the Closing Date, which terms could be less favorable to the Issuer than the form of "pay as you go" credit default swaps currently used in the market.

"Pay as you go" credit default swaps are a new type of credit default swap developed to incorporate the unique structures of certain types of Asset Backed Securities. While ISDA has published forms of confirmation for documenting "pay as you go" credit default swaps and has published and supplemented the ISDA Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the confirmations used to document credit default swaps and the ISDA Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. Past events have shown that the views of market participants may differ as to how the ISDA Credit Derivatives Definitions operate or should operate.

Future changes to the forms of "pay as you go" credit default swap confirmations and the ISDA Credit Derivatives Definitions and other terms applicable to credit derivatives generally are not predictable and may not be favorable to the Issuer. Amendments to such forms of confirmations and the ISDA Credit Derivatives Definitions that are published by ISDA will only apply to credit default swaps in respect of Synthetic Securities acquired or entered into by the Issuer to the extent the relevant parties agree to amend the credit default swaps between them to incorporate such amendments or agree that the ISDA Credit Derivative Definitions as amended apply to the transactions thereunder. As a result of the continued evolution of the form of confirmation used to document "pay as you go" credit default swaps, the confirmations used to document Synthetic Securities acquired or entered into by the Issuer may differ from any future market standard. Such a result may have a negative impact on the liquidity and market value of such Synthetic Securities.

Risks Relating to Collateral Securing Synthetic Securities. If the terms of any Credit Derivative Transaction require the related Synthetic Security Counterparty to secure its obligations to the Issuer with respect to such Synthetic Security, funds and other property used to secure such obligations will be deposited into a Synthetic Security Issuer Account. These funds may be invested, upon issuer order, in Eligible Investments or other Synthetic Security Collateral. In the event of a termination of such Synthetic Security, the Issuer would be entitled to receive the funds and other property standing to the credit of such Synthetic Security Issuer Account and if such funds or other property have been invested in Synthetic Security Collateral, such Synthetic Security Collateral may become Pledged Collateral Debt Securities. In such event, there is no assurance that the Pledged Collateral Debt Securities (as a whole) will meet the Eligibility Criteria. See "Security for the Notes—The Accounts—Synthetic Security Issuer Accounts".

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If the terms of any Defeased Synthetic Security require the Issuer to secure its obligations with respect to such Synthetic Security, funds and other property used to secure such obligations will be deposited into a Synthetic Security Counterparty Account. In accordance with the terms of the applicable Defeased Synthetic Security, such funds will be invested in Eligible Investments or other Synthetic Security Collateral. The Issuer may, with the written consent of the related Synthetic Security Counterparty, enter into total return swaps with respect to such Synthetic Security Collateral. After payment of all amounts owing by the Issuer to such Synthetic Security Counterparty or the occurrence of a default which entitles the Issuer to terminate its obligations under such Synthetic Security, all funds and other property standing to the credit of the Synthetic Security Counterparty Account related to such Defeased Synthetic Security will be credited to the Principal Collection Account (in the case of cash and Eligible Investments) or the Custodial Account (in the case of Synthetic Security Collateral other than cash and Eligible Investments). There can be no assurance that in such event the Pledged Collateral Debt Securities (as a whole) will meet the Eligibility Criteria. In addition, the Issuer will be exposed to changes in the market value of such Eligible Investments and Synthetic Security Collateral from the date on which Eligible Investments or Synthetic Security Collateral are deposited in such Synthetic Security Counterparty Account to the date such Eligible Investments are liquidated. See "Security for the Notes—The Accounts—Synthetic Security Counterparty Accounts".

In the case of many Credit Linked Securities, the proceeds from the issuance of such Credit Linked Securities will be invested in collateral that is pledged to secure the obligations of the related Synthetic Security Issuer to a Synthetic Security Counterparty and the Issuer's recourse in respect of such Credit Linked Securities will be limited to the periodic fixed payments received by such Synthetic Security Issuer from such Synthetic Security Counterparty and any collateral remaining after all amounts payable to such Synthetic Security Counterparty by such Synthetic Security Issuer have been paid. To the extent such Synthetic Security Issuer is obligated to make payments to such Synthetic Security Counterparty, such Synthetic Security Issuer will be obligated to liquidate all or a portion of such collateral. In addition, such Synthetic Security Counterparty may be obligated to post collateral to secure its obligations to the Synthetic Security Issuer. Accordingly, the Issuer will be exposed to changes in the market value of such collateral pledged by the Synthetic Security Issuer (as well as any collateral pledged by the Synthetic Security Counterparty to the Synthetic Security Issuer, in the event such Synthetic Security Counterparty defaults in its obligations to the Synthetic Security Issuer) from the date on which the Credit Linked Security was issued until the date on which all amounts payable to such Synthetic Security Counterparty have been paid.

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.

Limited Authority to Dispose of Collateral Debt Securities. After the Reinvestment Period, the Collateral Debt Securities may not be sold or otherwise disposed of, except (i) in connection with an

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

Reinvestment Risk. During the Reinvestment Period, the Collateral Manager will have discretion to dispose of certain Collateral Debt Securities and to reinvest the Sale Proceeds in substitute Collateral Debt Securities in compliance with the Eligibility Criteria. Such disposal and 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. See "Security for the Notes—Dispositions of Collateral Debt Securities". The impact, including any adverse impact, of the disposal of such Collateral Debt Securities and the reinvestment (or lack of reinvestment) of the Sale Proceeds thereof on the Noteholders and the Preference Shareholders would be magnified with respect to the Preference Shares by the leveraged nature of the Preference Shares and, with respect to the respective Classes of Notes, by the leveraged nature of such respective Classes of Notes.

The earnings with respect to such substitute Collateral Debt Securities will depend, among other factors, on reinvestment rates available in the marketplace at the time and on the availability of investments satisfying the Eligibility Criteria and acceptable to the Collateral Manager. 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 or 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.

If the Collateral Manager does not promptly reinvest Principal Proceeds in substitute Collateral Debt Securities, such amounts will be retained in the Principal Collection Account and invested in Eligible Investments, which are likely to have a low yield. This would result in a reduction of the amounts available for payment on the Notes and the Preference Shares.

Early Termination of the Reinvestment Period. Although the Reinvestment Period is expected to terminate on the Distribution Date occurring in October, 2011, the Reinvestment Period may terminate prior to such date if (i) the Collateral Manager notifies the Trustee of its election to make no further investments in substitute Collateral Debt Securities, (ii) the Notes are redeemed in a Tax Redemption as described under "Description of the Notes—Optional Redemption and Tax Redemption" or (iii) an Event of Default occurs and the Controlling Class elects to terminate the Reinvestment Period. If the Reinvestment Period terminates prior to the Distribution Date occurring in October, 2011, such early termination may affect the expected average lives of the Notes and the duration of the Preference Shares described under "Maturity, Prepayment and Yield Considerations".

On any Distribution Date prior to the last day of the Reinvestment Period the Collateral Manager, upon notice to the Trustee on or prior to the related Determination Date, may direct the Issuer to apply all or a portion of the Sale Proceeds that would otherwise have been eligible for reinvestment in substitute

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Collateral Debt Securities to the payment of principal of the Notes in accordance with the Priority of Payments, as if the Reinvestment Period had ended. The Collateral Manager may take such action with respect to any Distribution Date with or without also terminating the Reinvestment Period.

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 Offered Securities will be used to purchase Collateral Debt Securities having an aggregate principal amount (together with the principal amount of Collateral Debt Securities which the Issuer has committed to purchase) of not less than U.S.$1,800,000,000. Most of the remainder of the net proceeds from the issuance and sale of the Offered Securities are expected to be invested in Collateral Debt Securities that may not have been identified by the Collateral Manager on the Closing Date. Purchasers of the Notes and the Preference Shares will not have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding the investments to be made by the Collateral Manager (on behalf of the Issuer) and, accordingly, will be dependent upon the judgment and ability of the Collateral Manager in investing and managing the proceeds of the Notes and in identifying investments over time. No assurance can be given that the Collateral Manager (on behalf of the Issuer) will be successful in obtaining suitable investments or that, if such investments are made, the objectives of the Issuer will be achieved.

Rating Confirmation Failure; Mandatory Redemption. The Issuer will notify the Trustee, each Rating Agency and each Hedge Counterparty within seven Business Days after the Ramp-Up Completion Date (such notification, a "Ramp-Up Notice"). The Issuer will request that each Rating Agency confirm to the Issuer that it has not reduced or withdrawn the rating assigned by it on the Closing Date to any Class of Notes (a "Rating Confirmation"); provided that, if the Ramp-Up Completion Date occurs on the Closing Date (as shall be evidenced by the schedule of Collateral Debt Securities and an accountant's report delivered on the Closing Date pursuant to the Indenture), then the initial assignment by Moody's and Standard & Poor's of their ratings to the Notes on the Closing Date shall constitute a Rating Confirmation and no further action shall be required in connection with the Ramp-Up Completion Date. In the Ramp-Up Notice, the Issuer is required to certify to the Trustee and each Rating Agency whether the Collateral Quality Tests and the Overcollateralization Tests have been satisfied. If the Issuer is unable to obtain a Rating Confirmation from each Rating Agency prior to the first Determination Date that is at least 30 Business Days following receipt by such Rating Agency of such Ramp-Up Notice (a "Rating Confirmation Failure"), on the first Distribution Date thereafter, the Issuer will be required to apply Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities) and, to the extent that such Uninvested Proceeds are insufficient to redeem the Notes to the extent necessary to obtain a Rating Confirmation, on such Distribution Date and on each Distribution Date thereafter, Interest Proceeds and, to the extent that Interest Proceeds are insufficient, Principal Proceeds, in each case in accordance with the Priority of Payments, to the repayment, of principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes, *fifth*, the Class D Notes

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and, *sixth*, the Class E Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation. See "Description of the Notes—Mandatory Redemption" and "—Priority of Payments". There can be no assurance that such redemption will result in a Rating Confirmation. The notional amount of any Hedge Agreement entered into by the Issuer may be reduced by the Hedge Counterparty in connection with a redemption of Notes on any such Distribution Date by reason of any Rating Confirmation Failure, which is likely to require the Issuer to make a termination payment to the Hedge Counterparty.

The Co-Issuers shall be deemed to have obtained a Rating Confirmation with respect to the ratings assigned by Moody's if (i) Moody's does not notify the Co-Issuers in writing within 30 Business Days after receiving a Ramp-Up Notice that any such ratings have been reduced or withdrawn and (ii) all Overcollateralization Tests and Collateral Quality Tests are satisfied on the Ramp-Up Completion Date.

The Issuer expects that as of the Closing Date it will have purchased (or entered into agreements to purchase for settlement following the Closing Date) Collateral Debt Securities having an Aggregate Principal Balance (together with certain other amounts) of not less than U.S.$1,800,000,000. The Ramp-Up Completion Date will occur on the Closing Date if, as of 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 at least U.S.$2,000,000,000. There can be no assurance that, and the Issuer makes no representation that, on the Ramp-Up Completion Date it will have purchased (or entered into agreements to purchase for settlement following the Ramp-Up Completion Date) Collateral Debt Securities having an Aggregate Principal Balance of at least U.S.$2,000,000,000.

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

International Investing. The Collateral Debt Securities may include obligations of Qualifying Foreign Obligors. See clause (2) of the Eligibility Criteria under "Security for the Notes—Eligibility Criteria". In addition, the Collateral Debt Securities may be obligations of issuers organized in a Special Purpose Vehicle Jurisdiction. Moreover, subject to compliance with certain of the Eligibility Criteria described herein, collateral securing Asset-Backed Securities may consist of obligations of issuers or borrowers organized under the laws of various jurisdictions other than the United States. Investing outside the United States may involve greater risks than investing in the United States. These risks may include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; (iii) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws therein; and (iv) risk of economic dislocations in such other country. Moreover, many foreign companies are not subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies.

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

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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 court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing and future creditors of the obligor or to recover amounts previously paid by the obligor in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an obligor would be considered insolvent at a particular time if the sum of its debts were then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the obligor was "insolvent" after giving effect to the incurrence of the indebtedness constituting the Collateral Debt Security or that, regardless of the method of valuation, a court would not determine that the obligor was "insolvent" upon giving effect to such incurrence. In addition, in the event of the insolvency of an obligor of a Collateral Debt Security, payments made on such Collateral Debt Security could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before insolvency.

In general, if payments on a Collateral Debt Security are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the Issuer) or from subsequent transferees of such payments (such as the holders of the Offered Securities). To the extent that any such payments are recaptured from the Issuer, the resulting loss will be borne in the first instance by the Preference Shareholders, then by the holders of the Class E Notes, then by the holders

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of the Class D Notes, then by the holders of the Class C Notes, then by the holders of the Class B Notes, then by the holders of the Class A-2 Notes and then by the holders of the Class A-1 Notes. However, a court in a bankruptcy or insolvency proceeding would be able to direct the recapture of any such payment from a holder of Offered Securities only to the extent that such court has jurisdiction over such holder or its assets. Moreover, it is likely that avoidable payments could not be recaptured directly from a holder that has given value in exchange for its Offered Securities, in good faith and without knowledge that the payments were avoidable. Nevertheless, since there is no judicial precedent relating to a structured transaction such as the Offered Securities, there can be no assurance that a holder of Offered Securities will be able to avoid recapture on this or any other basis.

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

Modification of the 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 or modify the terms of the Notes. Approval for entering into such supplemental indentures does not in all cases require the consent of all of the holders of the outstanding Notes and Preference Shares. Accordingly, supplemental indentures that result in material and adverse changes to the interests of Noteholders, and in some cases Preference Shareholders, may be approved without the consent of all of the Noteholders and Preference Shareholders adversely affected. See "Description of the Notes-The Indenture—Modification of the Indenture".

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

Conflicts of Interest Involving the Collateral Manager. Various potential and actual conflicts of interest may arise from the advisory, investment and other activities of the Collateral Manager, its Affiliates and their respective clients and employees, including its affiliated broker-dealer, Cohen & Company Securities, LLC, for their own accounts or for their respective client accounts. Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager and its Affiliates for their own accounts or for the accounts of others. The Collateral Manager and its Affiliates may invest for their own accounts or for the accounts of others in securities that would be appropriate investments for the Issuer and they have no duty, in making such investments, to act in a way that is favorable to the Issuer, the Noteholders or the Preference Shareholders. Such investments may be the same as or different from those made on behalf of the Issuer. The Collateral Manager and its Affiliates may have economic interests in, render services to, engage in transactions with or have other relationships with issuers in whose obligations or securities the Issuer may invest. In particular, such persons may make and/or hold an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made and/or held by the Issuer or the partners, security holders, officers, directors, agents or employees of such persons may serve on boards of directors of, or otherwise have ongoing relationships with, such issuer. As a result, officers or Affiliates of the Collateral Manager may possess information relating to issuers of Collateral Debt Securities which is not known to the individuals at the Collateral Manager responsible for monitoring the Collateral Debt Securities and performing the other obligations of the Collateral Manager under the Collateral Management Agreement. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and otherwise create conflicts of interest for the Issuer. In such instances, the Collateral Manager and its Affiliates may in their discretion (except as provided below under "Security for the Notes—Dispositions of Collateral Debt Securities") make investment recommendations and decisions that may be the same as or different from those made with respect to the Issuer's investments.

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

Although the officers and employees of the Collateral Manager will devote as much time to the Issuer as the Collateral Manager deems appropriate, the principals and employees may have conflicts in allocating their time and services among the Issuer and other accounts now or hereafter advised by the Collateral Manager and/or its affiliates. The policies of the Collateral Manager are such that certain employees of the Collateral Manager may have or obtain information that, by virtue of the Collateral Manager's internal policies relating to confidential communications, cannot or may not be used by the Collateral Manager on behalf of the Issuer. In addition, the Collateral Manager and its Affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Collateral Manager from purchasing securities or selling securities for itself or its clients (including the Issuer) or otherwise using such information for the benefit of its clients or itself.

The Indenture and the Collateral Management Agreement place significant restrictions on the Collateral Manager's ability to advise the Issuer to buy or sell securities for inclusion in the Collateral, and the Collateral Manager is subject to compliance with such restrictions. Accordingly, during certain periods or in certain specified circumstances, the Issuer may be unable to buy or sell securities or to take other actions that the Collateral Manager might consider in the best interest of the Issuer and the Noteholders.

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

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adviser in the future, or for its clients or Affiliates and/or (ii) take "short" positions with respect to certain securities that will be the same as the securities included in the Collateral.

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

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

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

The Collateral Manager, its Affiliates and client accounts for which the Collateral Manager or its Affiliates act as investment advisor may at times also own other Offered Securities. As a holder of Offered Securities, the interests and incentives of the Collateral Manager will not necessarily be completely aligned with those of the other holders of the Offered Securities (or of the holders of any

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particular Class of Notes or any Preference Shares). Accordingly, the ownership of Preference Shares by the Collateral Manager and its Affiliates may give the Collateral Manager an incentive to take actions that vary from the interests of the other holders of the Offered Securities. The Collateral Manager, its Affiliates and client accounts are not required to purchase or hold any Offered Securities, and may at any time sell any Offered Securities held by them (including the Preference Shares purchased by them on the Closing Date). The Collateral Manager may pledge or otherwise assign all or a portion of its right to receive payment of Management Fees and dividends and other distributions on Preference Shares owned by it for the purpose of financing its acquisition of Preference Shares.

The Collateral Manager may bid at each Auction and, even if 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, which could discourage some potential bidders from participating in the Auctions.

Pursuant to the Collateral Management Agreement, the Issuer will pay an upfront management fee of U.S.$2,200,000 to the Collateral Manager on the Closing Date.

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

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

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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, the Collateral Manager has advised the Issuer that Cohen & Company Securities, LLC, an affiliate of the Collateral Manager, will place the Preference Shares. Services of the kind described in this paragraph may lead to conflicts of interest with the Collateral Manager, and may lead individual officers or employees of the Collateral Manager to act in a manner adverse to the Issuer.

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

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

The Collateral Manager may also effect client cross-transactions where the Collateral Manager causes a transaction to be effected between the Issuer and another account advised by it or any of its Affiliates. In addition, with the prior authorization of the Issuer, which can be revoked at any time, the Collateral Manager may enter into agency cross-transactions where it or any of its Affiliates acts as broker for the Issuer and for the other party to the transaction, to the extent permitted by applicable law, in which case any such affiliate will receive commissions from, and have a potentially conflicting division of loyalties and responsibilities regarding, both parties to the transaction. By purchasing an Offered Security of the Issuer, a Holder is deemed to have consented to the Collateral Manager 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 Manager 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 Manager may affect transactions for

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the Issuer on a national securities exchange of which any of its Affiliates is a member and retain commissions in connection therewith. Although the Affiliates of the Collateral Manager anticipate that the commissions, mark-ups and mark-downs charged by the Affiliates will generally be competitive, the Collateral Manager may have interests in such transactions that are adverse to those of the Issuer, such as an interest in obtaining favorable commission rates, mark-ups and mark-downs.

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

Certain Conflicts of Interest Involving the Initial Purchaser. Certain of the Collateral Debt Securities acquired by the Issuer may consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which the Initial Purchaser or an affiliate of the Initial Purchaser has acted as underwriter, agent, placement agent or dealer or for which an affiliate of the Initial Purchaser has acted as lender or provided other commercial or investment banking services. The Initial Purchaser or an affiliate of the Initial Purchaser may structure issuers of Collateral Debt Securities and arrange to place such Collateral Debt Securities with the Issuer. The Initial Purchaser or one or more of its affiliates may also act as Synthetic Security Counterparty with respect to Credit Derivative Transactions or Credit Linked Securities the payments on which depend on payments from a Synthetic Security Counterparty. In connection with Credit Derivative Transactions or Credit Linked Securities, the Issuer (in the case of Credit Derivative Transactions) or the Synthetic Security Issuer (in the case of Credit Linked Securities) may enter into total return swaps, asset swaps, interest rate hedges, basis swaps or other derivative transactions with respect to collateral posted by the Issuer to secure its obligations to the Synthetic Security Counterparty under a Credit Derivative Transaction or collateral posted by the Synthetic Security Issuer to secure its obligations to the Synthetic Security Counterparty in connection with a Credit Linked Security ; *provided* that the Issuer may not enter total return swaps, asset swaps, interest rate hedges, basis swaps or other derivative transactions with a Synthetic Security Counterparty the payments from which are subject to withholding tax or the entry into, performance, enforcement or termination of which would subject the Issuer to tax on a net income basis in any jurisdiction outside the Issuer's jurisdiction of incorporation. In its role as Synthetic Security Counterparty with respect to Credit Derivative Transactions or Credit Linked Securities, the Initial Purchaser or one or more of its affiliates may manage a pool of Reference Obligations with respect to such Synthetic Securities and make determinations regarding such Reference Obligations (including determinations as to whether a "credit event" or "floating amount event" has occurred with respect thereto). In addition, an affiliate of the Initial Purchaser may act as a Hedge Counterparty under the Hedge Agreement. The Initial Purchaser or one or more of its affiliates may enter into derivative transactions with third parties relating to the Offered Securities or to Collateral Debt Securities acquired by the Issuer, and the Initial Purchaser or one or more of its affiliates may, in connection therewith, acquire (or establish long, short or derivative financial positions with respect to) Offered Securities, Collateral Debt Securities or one or more portfolios of financial assets similar to the portfolio of Collateral Debt Securities acquired by (or intended to be acquired by) the Issuer. Such activities may create certain conflicts of interest.

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-1 Notes, and in such event the Affiliate of the Initial Purchaser may be entitled to exercise the voting rights of the Controlling Class or may agree to exercise such voting rights at the direction of a third party. 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

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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 the holders of the Securities.

In addition, an affiliate of the Initial Purchaser will sell all or most of the initial portfolio of Collateral Debt Securities to the Issuer on the Closing Date.

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. The Initial Purchaser and each of its Affiliates will not act as a fiduciary for the Issuer in any of the capacities listed above and will take such actions, in each of the capacities listed above, as it deems to be in its commercial interests and will have no obligation to consider the effect of its actions on the Issuer, Noteholders or Preference Shareholders.

Removal of the Collateral Manager. The Collateral Manager may be removed and replaced as the Collateral Manager under the circumstances described under "The Collateral Management Agreement—Removal". Such termination may become effective without the approval of holders of all of the Notes and Preference Shares. The Collateral Manager 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 most of the Collateral Debt Securities purchased by the Issuer on the Closing Date will be purchased from a portfolio of Collateral Debt Securities selected by the Collateral Manager and held by MLI, an affiliate of MLPFS, pursuant to warehousing agreements between MLI and the Collateral Manager. Some of the Collateral Debt Securities subject to such warehousing agreement may have been originally acquired by MLPFS from the Collateral Manager or one of its affiliates or clients and some of the Collateral Debt Securities subject to such warehousing agreements may include securities issued by a fund or other entity owned, managed or serviced by the Collateral Manager or its Affiliates. The Issuer will purchase Collateral Debt Securities included in such warehouse portfolios only to the extent that such purchases are consistent with the investment guidelines of the Issuer, the restrictions contained in the Indenture and the Collateral Management Agreement and applicable law. The purchase price payable by the Issuer for such Collateral Debt Securities will be based on the purchase price paid when such Collateral Debt Securities were acquired under the warehousing agreements, accrued and unpaid interest on such Collateral Debt Securities as of the Closing Date and gains or losses incurred in connection with hedging arrangements entered into with respect to such Collateral Debt Securities. Accordingly, the Issuer will bear the risk of market changes subsequent to the acquisition of such Collateral Debt Securities and related hedging arrangements as if it had acquired such Collateral Debt Securities directly at the time of purchase by MLI of such Collateral Debt Securities and not the Closing Date.

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.

Ramp-Up Period Purchases. The Issuer will use its commercially reasonable efforts to purchase or enter into binding agreements to purchase, on or before December 8, 2006, Collateral Debt Securities having an Aggregate Principal Balance (together with certain other amounts) of not less than U.S.$2,000,000,000.

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

Whether or not the Issuer has succeeded in acquiring Collateral Debt Securities having an Aggregate Principal Balance (together with certain other amounts) of U.S.$2,000,000,000 by the Ramp-Up Completion Date, a Rating Confirmation Failure may occur if any of the Collateral Quality Tests or the Overcollateralization Tests are not satisfied. Following a Rating Confirmation Failure, Uninvested Proceeds, Interest Proceeds and Principal Proceeds (to the extent necessary to obtain a Rating Confirmation) may be applied to redeem the Notes, in part, as and in the amount described herein. See "Security for the Notes—Ramp-Up Period".

On the first Distribution Date following the occurrence of a Rating Confirmation, all Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities) are required to be applied as Interest Proceeds (to the extent of the Interest Excess if there is a Rating Confirmation) or Principal Proceeds. Accordingly, to the extent that Uninvested Proceeds have not been invested in Collateral Debt Securities during the Ramp-Up Period, such Uninvested Proceeds will be distributed on such Distribution Date in accordance with the Priority of Payments.

Failure to be Fully Invested During the Ramp-Up Period. The amount of Collateral Debt Securities purchased on the Closing Date and the amount and timing of the purchase of additional Collateral Debt Securities during the Ramp-Up Period will affect the return to holders of, and cash flows available to make payments on, the Offered Securities. Reduced liquidity and lower volumes of trading in certain Collateral Debt Securities, in addition to restrictions on investment contained in the Eligibility Criteria, could reduce the rate at which the Collateral Manager is able to invest in Collateral Debt Securities. Any excess cash (including any Principal Proceeds which the Collateral Manager has designated for reinvestment by the Issuer in additional Collateral Debt Securities) not immediately used during the Reinvestment Period 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.

Although the entire aggregate principal amount of the Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes will be advanced on the Closing Date, less than the entire aggregate principal amount of the Class A-1 Notes will be advanced on the Closing Date. During the period (the "Ramp-Up Period") from, and including, the Closing Date to, and including, the Ramp-Up Completion Date, the Issuer will borrow from the holders of the Class A-1 Notes on and subject to the terms and conditions in the Class A-1 Note Funding Agreement in order to purchase eligible Collateral Debt Securities (for inclusion in the Collateral) having an aggregate Principal Balance of not less than the aggregate Principal Balance necessary for the Issuer to comply with its obligations under the Indenture.

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 Issuer under the Hedge Agreements, including the obligation to make termination payments to any

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Hedge Counterparties (and the obligations of the Hedge Counterparty to make payments to the Issuer), and the likely ability of the Issuer to terminate or reduce any Hedge Agreements or enter into additional Hedge Agreements.

True Sale. If MLI were to become the subject of a case or proceeding under the United States Bankruptcy Code, another applicable insolvency law or a stockbroker liquidation under the Securities Investor Protection Act of 1970, the trustee in bankruptcy, other liquidator or the Securities Investor Protection Corporation could assert that Collateral Debt Securities acquired from MLI are property of the insolvency estate of MLI. Property that MLI has pledged or assigned, or in which MLI has granted a security interest, as collateral security for the payment or performance of an obligation, would be property of the estate of MLI. Property that MLI has sold or absolutely assigned and transferred to another party, however, is not property of the estate of MLI. The Issuer does not expect that the purchase by the Issuer of Collateral Debt Securities, under the circumstances contemplated by this Offering Circular, will be deemed to be a pledge or collateral assignment (as opposed to the sale or other absolute transfer of such Collateral Debt Securities to the Issuer).

Dependence on the Collateral Manager and Key Personnel. The performance of the portfolio of Collateral Debt Securities depends heavily on the skills of the Collateral Manager in analyzing and selecting the Collateral Debt Securities. As a result, the Issuer will be highly dependent on the financial and managerial experience of the Collateral Manager and certain of the officers and employees of the Collateral Manager to whom the task of selecting and monitoring the Collateral has been assigned or delegated. Certain employment arrangements between those officers and employees and the Collateral Manager may exist, but the Issuer is not, and will not be, a direct beneficiary of such arrangements, which arrangements are in any event subject to change without the consent of the Issuer. The loss of one or more individuals employed by the Collateral Manager to manage the Issuer's investments could have a significant adverse effect on the performance of the Issuer if suitable replacements are not hired or otherwise available to perform such functions. See "Collateral Manager" and "The Collateral Management Agreement".

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

Relation to Prior Investment Results. The Collateral Manager is a recently formed entity and has limited prior investment results. This is the fourth CDO investing in Asset-Backed Securities for which Strategos will be the collateral manager. The prior investment results of the persons associated with the Collateral Manager or any other entity or person described herein are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.

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

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, the

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timing of acquisitions of Collateral Debt Securities, differences in the actual allocation of the Collateral Debt Securities among asset categories from those assumed, the timing of acquisitions of the Collateral Debt Securities, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Collateral Debt Securities (particularly during ramp-up), defaults under Collateral Debt Securities and the effectiveness of any Hedge Agreements, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Initial Purchaser, 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 Collateral Manager, 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 Offered 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 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 Offered 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 Offered 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.

Money Laundering Prevention. "The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001" (the "USA PATRIOT Act"), effective as of October 26, 2001, requires broker-dealers registered with the Securities and Exchange Commission (the "SEC") and the National Association of Securities Dealers (the "NASD"), such as the Initial Purchaser, to establish and maintain anti-money laundering programs. With respect to the content of those programs, the NASD has enacted a rule that requires broker-dealers to establish and maintain anti-money laundering programs similar to those currently in place at U.S. banks. The Treasury Department has published proposed regulations that, if enacted in their current form, will compel certain "unregistered investment companies" to undertake certain activities including establishing, maintaining and periodically testing an anti-money laundering compliance program, and designating and training personnel responsible for that compliance program. In addition, the Treasury Department has published proposed regulations that would require certain investment managers to establish anti-money laundering programs. The Issuer will continue to monitor the ambit of the proposed regulations, and of the exceptions thereto, and will take all necessary steps (if any) required to comply with those regulations once they are enacted. It is possible that legislation or regulation could be promulgated which will require the Collateral Manager or other service providers to the Co-Issuers to share information with governmental authorities with respect to investors in the Offered Securities in connection with the establishment of anti-money laundering procedures or require the Issuer to implement additional restrictions on the transfer of the Offered Securities. The Issuer reserves the right to request such

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information as is necessary to verify the identity of the holder of an Offered Security and the source of the payment of subscription monies, or as is necessary to comply with any customer identification programs required by the Treasury Department or by any other governmental or self-regulatory agency. Legislation and/or regulations could require the Issuer to implement additional restrictions on the transfer of the Offered Securities. In the event of delay or failure by the applicant to produce any information required for verification purposes, an application for or transfer of the Offered Securities and the subscription monies relating thereto may be refused.

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

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

Investment Company Act. Neither of the Co-Issuers has been registered with the SEC as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States or any state thereof whose investors resident in the United States are Qualified Purchasers. Counsel for the Co-Issuers will opine, in connection with the sale of the Notes and Preference Shares by the Initial Purchaser, that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, that the Notes and Preference Shares are sold by the Initial Purchaser in accordance with the terms of the Purchase Agreement). No opinion or no-action position has been requested of the SEC.

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

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

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Issuer May Cause a Transfer of 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 (unless such beneficial owner is an Accredited Investor that purchased such Restricted Note (or any interest therein) directly from the Co-Issuers or the Initial Purchaser) and also a Qualified Purchaser, then either of the Co-Issuers 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). See "Description of the Notes—Form, Denomination, Registration and Transfer—Transfer and Exchange of the 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 Class D Note or Class E Note, the Issuer (or the Collateral Manager on its behalf) shall require, by notice to such Benefit Plan Investor, that such Benefit Plan Investor sell all of its right, title and interest in or to such Class D Note or Class E Note in accordance with the Indenture. 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 or an interest therein (x) is or becomes a Benefit Plan Investor or a Controlling Person and did not disclose in an Investor Application Form (or a transfer certificate) that it was a Benefit Plan Investor or a Controlling Person (or, in the case of Regulation S Global Preference Shares, represented that it was not a Benefit Plan Investor or a Controlling Person but actually was a Benefit Plan Investor or a Controlling Person), (y) is a U.S. Person (in the case of a Regulation S Global Preference Share) or (z) is not both (i) a Qualified Institutional Buyer or an Accredited Investor and (ii) a Qualified Purchaser (in the case of a Restricted Preference Share), the Issuer shall require, by notice to such holder that such holder sell all of its right, title and interest to such Preference Share (or interest therein). See "Description of the Preference Shares—Form, Registration and Transfer—Transfer and Exchange".

Mandatory Repayment of the Notes. If any Overcollateralization Test applicable to a Class of Notes is not met, Interest Proceeds (and then Principal Proceeds, if needed) will be used to the extent that funds are available in accordance with the Priority of Payments and to the extent necessary to restore the relevant Overcollateralization Test(s) to certain minimum required levels, to repay principal of one or more Classes of Notes. In certain cases, Interest Proceeds will be applied to redeem the Notes in the inverse order of their seniority. See "Description of the Notes—Mandatory Redemption". The Hedge Counterparties may terminate their Hedge Agreements in part, as a result, which is likely to require the Issuer 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 and, after application of Interest Proceeds, Principal Proceeds, will be used for the payment of principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, third, the Class B Notes, fourth, the Class C Notes, *fifth*, the Class D Notes and, *sixth*, the Class E Notes, 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".

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Auction Call Redemption. In addition, if the Notes have not been redeemed in full prior to the Distribution Date occurring in October, 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. 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. In addition, in order to effect an Auction Call Redemption the Issuer will be required to terminate each Credit Derivative Transaction and may be required to terminate credit derivative transactions underlying Credit Linked Securities, which may result in a termination payment to the related Synthetic Security Counterparty. Any requirement of the Issuer to make termination payments under a Synthetic Security or Hedge Agreement may prevent the Issuer from satisfying the conditions for an Auction Call Redemption.

The Collateral Manager may bid at each Auction and, even if 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, which could discourage some potential bidders from participating in the Auctions

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 October, 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. In addition, in order to effect an Optional Redemption the Issuer will be required to terminate each Credit Derivative Transaction and may be required to terminate credit derivative transactions underlying Credit Linked Securities, which may result in a termination payment to the related Synthetic Security Counterparty. Any requirement of the Issuer to make termination payments under a Synthetic Security or 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 (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 $66^2/_3$% of the 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, interest and Commitment Fee 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; *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. In addition, in order to effect a Tax Redemption the Issuer will be required to terminate each Credit Derivative Transaction and may be required to terminate credit derivative transactions underlying Credit Linked Securities, which may result in a termination payment to the related Synthetic Security Counterparty. Any requirement of the Issuer to make termination payments under a Synthetic Security or Hedge Agreement may prevent the Issuer from satisfying the conditions for a Tax Redemption.

Interest Rate Risk. The Notes bear interest at a rate based on LIBOR as determined on the relevant LIBOR Determination Date. The Collateral Debt Securities will include obligations that bear interest at LIBOR and other floating rates that are calculated or fixed on different dates or for shorter or

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longer periods than the LIBOR applicable to the Notes. The Collateral Debt Securities may include obligations that bear interest at fixed rates, or at initially fixed rates that after a period of time convert to floating rates. Accordingly, the Notes are subject to interest rate risk to the extent that there is an interest rate or basis mismatch between the floating rate at which interest accrues on the Notes and the floating or fixed rates at which interest accrues on the Collateral Debt Securities. The relative movements of LIBOR and any floating rate applicable to the Collateral Debt Securities could adversely impact the Issuer's ability to make payments on the Notes or distributions on the Preference Shares. In addition, any payments of principal of or interest on Collateral Debt Securities received during a Due Period will be reinvested in Eligible Investments maturing not later than the Business Day immediately preceding the next Distribution Date. There is no requirement that Eligible Investments bear interest at LIBOR, and the interest rates available for Eligible Investments are inherently uncertain. As a result of these mismatches, an increase in three-month LIBOR could adversely impact the ability of the Issuer to make payments on the Notes (including by reason of a decline in the value of previously issued fixed rate Collateral Debt Securities as LIBOR increases). To mitigate a portion of such interest rate mismatch, the Issuer will on the Closing Date enter into an initial Hedge Agreement. However, there can be no assurance that the Collateral Debt Securities and Eligible Investments, together with the Hedge Agreements, will in all circumstances generate sufficient Interest Proceeds to make timely payments of interest on the Notes. Moreover, the benefits of a Hedge Agreement may not be achieved in the event of the early termination of such Hedge Agreement, including termination upon the failure of the Hedge Counterparty to perform its obligations thereunder. See "Security for the Notes—The Hedge Agreements".

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

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

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

The average life of each Class of Notes will be affected by the financial condition of the obligors on or issuers of the Collateral Debt Securities and the characteristics of the Collateral Debt Securities, including the existence and frequency of exercise of any prepayment, optional redemption or sinking fund

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features, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries on any Defaulted Securities, the frequency of tender or exchange offers for the Collateral Debt Securities and any sales of Collateral Debt Securities and any dividends or other distributions received in respect of Equity Securities, as well as the risks unique to investments in obligations of foreign issuers described above. During the Reinvestment Period, Principal Proceeds received by the Issuer may under certain circumstances be used to pay principal of the Notes in accordance with the Priority of Payments. Accordingly, the average life of the Notes will be affected by the rate of principal payments on the underlying Collateral Debt Securities and by the receipt by the Issuer of Sale Proceeds. See "Maturity, Prepayment and Yield Considerations" and "Security for the Notes".

Up Front Payment. The Hedge Agreement entered into on the Closing Date will provide that the Initial Hedge Counterparty make an Up Front Payment of U.S.$16,914,000 on the Closing Date to the Issuer. As a result of this Up Front Payment, the payments to be made by the Issuer to the Hedge Counterparty under such Hedge Agreement on each Distribution Date will be more than they would have been if the Up Front Payment had not been made, because such payments include the repayment by the Issuer of this Up Front Payment together with interest thereon. As a result of the amounts payable under a 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 a Hedge Agreement, the Issuer may be required to make a termination payment to the Hedge Counterparty, and such termination payment will be larger than if the Up Front Payment had not been made. However, the initial cash balance in the Uninvested Proceeds Account will be higher on the Closing Date than it would have been if an Up Front Payment had not been made. The Issuer's obligations to the Hedge Counterparty in respect of payments under a Hedge Agreement (including repayment of an Up Front Payment, together with interest thereon), will be secured under the Indenture and will be senior in priority to the Issuer's obligations to pay interest and principal on the Notes.

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

Listing. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. Application will be made to the CISX for the listing of the Preference Shares. There can be no assurance that any such listing will be obtained or that, if it is obtained, that it will be maintained by the Issuer. If any Class or Classes of Notes are admitted to the official list of the Irish Stock Exchange, the Issuer may at any time terminate the listing of such Notes if the Issuer determines that, as a result of a change in the requirements of the Irish Stock Exchange, the maintenance of such listing would impose any material obligation or expense on the Issuer (in excess of the amount anticipated on the Closing Date). If the Preference Shares are listed on the

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CISX, the Issuer may at any time terminate the listing of the Preference Shares if the Issuer determines that, as a result of a change in the requirements of the CISX, the maintenance of such listing would impose any material obligation or expense on the Issuer (in excess of the amount anticipated on the Closing Date). If the Issuer terminates the listing, it will make reasonable endeavors to seek a replacement listing on such other stock exchange outside the European Union that is a member of the International Federation of Stock Exchanges and that is located in a state that is a member of the Organization for Economic Cooperation and Development, unless obtaining or maintaining a listing on such stock exchange requires the Issuer to restate its accounts or is otherwise unduly burdensome, in which event the Issuer will make reasonable endeavors to obtain a replacement listing elsewhere.

Certain Legal Investment Considerations. None of the Issuer, the Co-Issuer, the Collateral Manager, or the Initial Purchaser makes any representation as to the proper characterization of the Offered Securities for legal investment or other purposes, as to the ability of particular investors to purchase Offered Securities for legal investment or other purposes or as to the ability of particular investors to purchase Offered 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 Offered 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 Manager and the Initial Purchaser makes any representation as to the characterization of the Offered 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 Offered Securities) may affect the liquidity of the Offered Securities.

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

The Issuer expects that payments received on the Collateral Debt Securities, Eligible Investments and the Hedge 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 Agreements, however, might become subject to U.S. or other withholding tax due to a change in law or other causes. Payments with respect to any equity securities held by the Issuer likely will be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. The imposition of unanticipated withholding taxes or tax on the Issuer's net income could materially impair the Issuer's ability to pay principal of and interest and Commitment Fee on the Notes and to make distributions on the Preference Shares. See "Income Tax Considerations".

No Gross Up. The Issuer expects that payments by the Issuer of principal of and interest and Commitment Fee 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". If the Issuer were engaged in a U.S. trade or business, Commitment Fee may not be subject to U.S. withholding tax and interest paid to many Non-

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U.S. Holders would qualify for an exemption from withholding tax if the holders certify their foreign status. In the event that withholding or deduction of any taxes from payments or distributions is required by law in any jurisdiction, neither of the Co-Issuers shall be under any obligation to make any additional payments to the holders of any Notes or Preference Shares in respect of such withholding or deduction.

Tax Treatment of Holders of Class C Notes, the Class D Notes, the Class E Notes and Preference Shares. Because the Issuer will be a passive foreign investment company, a U.S. person holding Preference Shares may be subject to additional taxes unless it elects to treat the Issuer as a qualified electing fund and to recognize currently its proportionate share of the Issuer's income. The Issuer also may be a controlled foreign corporation, in which case a U.S. Person that owns (directly, indirectly or by attribution) at least 10% of the Preference Shares would be subject to different tax treatment. See "Income Tax Considerations".

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

ERISA Considerations. The Issuer intends to restrict ownership of the Class D Notes and Class E 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") consistent with Section 3(42) of ERISA and the Plan Asset Regulation issued by the United States Department of Labor. The Issuer intends to preclude the acquisition of Class D Note or Class E Notes by "Benefit Plan Investors" and to restrict the acquisition of Preference Shares by "Benefit Plan Investors" to less than 25% of the Preference Shares (excluding the Preference Shares held by Controlling Persons). "Benefit Plan Investors" are defined in Section 3(42) of ERISA to include employee benefit plans that are subject to part 4 of Title I of ERISA, plans subject to Section 4975 of the Code, and entities whose underlying assets are deemed to include plan assets by reason of any such plan's investment in such entities (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). However, there can be no assurance that ownership of Preference Shares by Benefit Plan Investors will always remain below the 25% threshold consistent with Section 3(42) of ERISA and the Plan Asset Regulation. Each owner of an interest in the Regulation S Global Preference Shares will be required to execute and deliver to the Issuer and the Preference Share Paying Agent a letter in the form attached as Exhibit A hereto and as an exhibit to the Preference Share Paying Agency Agreement to the effect that such owner will not transfer such interest except in compliance with the transfer restrictions set forth in the Preference Share Paying Agency Agreement, including the requirement that no Regulation S Global Preference Shares may be transferred to a Benefit Plan Investor or a Controlling Person, and the requirement that any subsequent transferee execute and deliver such letter to the Issuer and the Preference Share Paying Agent as a condition to any subsequent transfer. Although each such owner will be required to indemnify the Issuer for the consequences of any breach of such obligations, there is no assurance that an owner will not breach such obligations or that, if such breach occurs, such owner will have the financial capacity and willingness to indemnify the Issuer for any losses that the Issuer may suffer, including non-compliance with the 25% threshold.

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Each Original Purchaser and each transferee of a Class D Note or Class E Note will be deemed to represent that it is not a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitutes "plan assets" under Section 401(c) of ERISA (and a wholly owned subsidiary of such a general account). In addition, each Original Purchaser and each transferee of a Class D Note or Class E Note will be deemed to represent that it is not a Benefit Plan Investor and that it will not transfer an interest in the Class D Note or Class E Notes except in compliance with the transfer restrictions set forth in the Indenture including the requirement that the transferee is not a Benefit Plan Investor. There can be no assurance, however, that Benefit Plan Investors will not in fact acquire beneficial interests in the Class D Notes or Class E 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.

Each Original Purchaser and each transferee of a Note (other than a Class D Note or Class E Note) or an interest therein 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) acting on behalf of a Benefit Plan Investor or a governmental or church plan subject to any Similar Law, or (b) its acquisition and holding of such Note (other than a Class D or Class E 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 of a Restricted Definitive Preference Share from the Issuer or the Initial Purchaser 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 of a Restricted Definitive Preference Share by a Benefit Plan Investor or a Controlling Person except that, on the Closing Date, it may be a Benefit Plan Investor or a Controlling Person if, after giving effect to such transfer, less than 25% of the Preference Shares (excluding the Preference Shares held by Controlling Persons) would be held by Benefit Plan Investors. No Restricted Definitive Preference Share or any interest therein may subsequently be acquired by or transferred to a Benefit Plan Investor or Controlling Person.

No Regulation S Global Preference Share or any interest therein may be acquired by or transferred to a Benefit Plan Investor or a Controlling Person. No Regulation S Global Preference Share may be transferred to a transferee which is acquiring an interest in a Regulation S Global Preference Share unless such transferee executes a letter in the form of Exhibit A to this Offering Circular and as an exhibit to the Preference Share Paying Agency Agreement to the effect that such owner will not transfer such interest except in compliance with the transfer restrictions set forth in the Preference Share Paying Agency Agreement (including the requirement that no Regulation S Global Preference Share may be transferred to a Benefit Plan Investor or a Controlling Person, and the requirement that any subsequent transferee execute and deliver such letter to the Issuer and the Preference Share Paying Agent as a condition to any subsequent transfer).

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Each Original Purchaser of Preference Shares from the Initial Purchaser will be required to complete an investor application form (each, an "Investor Application Form") 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.

The Issuer. The Issuer is a recently formed Cayman Islands entity and has no prior operating history other than in connection with the acquisition of certain Collateral Debt Securities prior to the issuance of the Offered Securities and the entering into of arrangements with respect thereto. The Issuer will have no significant assets other than the Collateral Debt Securities, Equity Securities, Eligible Investments and the Accounts and its rights under the Hedge Agreements and certain other agreements entered into as described herein, all of which have been pledged to the Trustee to secure the Issuer's obligations to the holders of the Notes (the "Noteholders"), each Hedge Counterparty and the Collateral Manager. The Issuer will not engage in any business activity other than (i) the issuance of the Notes, the Preference Shares and its ordinary shares, (ii) the acquisition, disposition of, and investment in, Collateral Debt Securities, Equity Securities and Eligible Investments, (iii) the entering into, and the performance of its obligations under the Indenture, the Notes, the Purchase Agreement, the Account Control Agreement, the Preference Share Paying Agency Agreement, the Collateral Management 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 Notes, (v) the ownership and management of the Co-Issuer and (vi) certain activities conducted in connection with the payment of amounts in respect of the Offered Securities, the management of the Collateral and other incidental activities. Income derived from the Collateral Debt Securities and other Collateral will be the Issuer's only source of cash.

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

Certain Considerations Relating to the Cayman Islands. The Issuer is an exempted company incorporated under the laws of the Cayman Islands. As a result, it may not be possible for purchasers of the Offered Securities to effect service of process upon the Issuer within the United States or to enforce against the Issuer in United States courts judgments predicated upon the civil liability provisions of the securities laws of the United States. The Issuer will be advised by Walkers, its legal advisor in the Cayman Islands, that the United States and the Cayman Islands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters and that a final judgment for the payment of money rendered by any Federal or state court in the United States based on civil liability, whether or not predicated solely upon United States securities laws, would, therefore, not be automatically enforceable in the Cayman Islands and there is doubt as to the enforceability in the Cayman Islands, in original actions or in actions for the enforcement of judgments of the United States courts, of liabilities predicated solely upon United States securities laws. The Issuer will appoint Corporation Service Company, 1133 Avenue of the Americas, Suite 3100, New York, NY 10036 as its agent in New York for service of process.

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

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for investors subject to tax in Germany, if the InvStG is applied to the Notes. 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 Notes are not subject to the InvStG.

Neither the Issuer nor the Initial Purchaser makes any representation, warranty or other undertaking whatsoever that the Notes 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 Notes 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 Notes, and neither the Issuer nor the Initial Purchaser accepts any responsibility in respect of the tax treatment of the Notes under German law.

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.

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DESCRIPTION OF THE NOTES

The Notes will be issued pursuant to the Indenture. The following summary describes certain provisions of the Notes and the Indenture. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture. After the Closing Date, copies of the Indenture may be obtained by prospective investors upon request to the Trustee at Wells Fargo Bank, National Association, 9062 Old Annapolis Road, Columbia, Maryland 21045, Attention: CDO Trust Services–Kleros Preferred Funding III, Ltd.

Status and Security

The Notes will be limited recourse debt obligations of the Co-Issuers. All of the Class A-1 Notes are entitled to receive payments *pari passu* among themselves, all of the Class A-2 Notes are entitled to receive payments *pari passu* among themselves, all of the Class B Notes are entitled to receive payments *pari passu* among themselves, all of the Class C Notes are entitled to receive payments *pari passu* among themselves, 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 each Class of Notes on each Distribution Date is as follows: *first*, Class A-1 Notes, *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Notes, *fifth*, the Class D Notes and, *sixth*, the Class E Notes, with each Class of Notes (other than the Class A-1 Notes) in such list being Subordinate to each other Class of Notes that precedes such Class of Notes in such list. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest and Commitment Fee on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full. During a Sequential Pay Period, except as otherwise described in the Priority of Payments with respect to application of Interest Proceeds, no payment of principal of any Class of Notes will be made until all principal of, and accrued and unpaid interest and Commitment Fee on, the Notes of each Class that is Senior to such Class and that remain outstanding have been paid in full. See "Description of the Notes—Priority of Payments".

Under the terms of the Indenture, the Issuer will grant to the Trustee for the benefit of the Secured Parties a first priority security interest in the Collateral described herein to secure the Issuer's obligations under the Indenture and the Notes subject in the case of any Synthetic Security Counterparty Account to the security interest of the related Synthetic Security Counterparty in such Account.

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

Drawdown

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

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

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Class A-2 Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes will be advanced on the Closing Date.

Class A-1 Notes

All of the Class A-1 Notes will be issued on the Closing Date, but only U.S.$1,400,000,000 of the principal amount of the Class A-1 Notes will be advanced on the Closing Date. Pursuant to the Class A-1 Note Funding Agreement dated September 26, 2006 between the Issuer, the Co-Issuer, the Trustee and the holders from time to time of the Class A-1 Notes, subject to compliance with the conditions set forth therein, the Co-Issuers may request (and the holders of the Class A-1 Notes (or such Liquidity Providers to whom such holders have delegated their obligations under the Class A-1 Note Funding Agreement) will be obligated to make (*pro rata* in accordance with their respective Commitments) advances under the Class A-1 Notes on each of the 10th and the 25th day of a calendar month (or, if any such day is not a Business Day, on the next succeeding Business Day) until the aggregate principal amount advanced under the Class A-1 Notes equals U.S.$1,800,000,000 during the period (the "Commitment Period") starting on and including the Closing Date and ending on and excluding the date (the "Commitment Period Termination Date") that is the earliest of (i) the first Business Day after the Ramp-Up Completion Date; (ii) the redemption of the Class A-1 Notes in full; (iii) the first date on which the aggregate outstanding unfunded Commitments have been reduced to zero; (iv) the date of the occurrence of an Event of Default specified in clause (iv) or (vi) of the definition thereof; or (v) the sale, foreclosure or other disposition of the Collateral under the Indenture. Any reference herein to "Commitments" in respect of any Class A-1 Note at any time shall mean the maximum aggregate principal amount of advances (whether at the time funded or unfunded) that the holder (or such Liquidity Provider to whom such holder has delegated its obligations under the Class A-1 Note Funding Agreement) of such Class A-1 Note is obligated from time to time under the Class A-1 Note Funding Agreement to make to the Co-Issuers.

During the Commitment Period, the Co-Issuers (at the direction of the Collateral Manager) may borrow amounts under the Class A-1 Notes (a "Borrowing" and the date of any such Borrowing, a "Borrowing Date"), *provided* that (i) the aggregate amount of Borrowings under the Class A-1 Notes may not in any event exceed the aggregate amount of Commitments in respect of the Class A-1 Notes and (ii) at the time of and immediately after giving effect to such Borrowing, no Default has occurred and is continuing or would result from such Borrowing.

The aggregate principal amount of any Borrowing in respect of the Class A-1 Notes will be at least U.S.$25,000,000 and an integral multiple of U.S.$1,000,000. On or prior to the fifth Business Day immediately preceding each Borrowing Date (other than the Closing Date), the Collateral Manager will cause the Co-Issuers to provide notice to each Class A-1 Noteholder (with a copy to the Trustee) of the Co-Issuers' intention to effect a Borrowing.

On the Commitment Period Termination Date, the aggregate unfunded amount of the Class A-1 Notes, if any, will be reduced to zero.

Prior to the Commitment Period Termination Date, each holder of the Class A-1 Notes will be required to satisfy the Class A-1 Note Rating Criteria (as specified in the Class A-1 Note Funding Agreement). If any holder of Class A-1 Notes shall at any time prior to the Commitment Period Termination Date fail to satisfy the Class A-1 Note Rating Criteria, the Issuer will have the right under the Class A-1 Note Funding Agreement to, and will be obligated under the Indenture to, replace such holder with another entity that meets the Class A-1 Note Rating Criteria (by requiring the non-complying holder to transfer all of its rights and obligations in respect of the Class A-1 Notes to such other entity). The "Class A-1 Note Rating Criteria " will be satisfied on any date with respect to any holder of the Class A-1 Notes if (a) the short-term debt, deposit or similar obligations of such holder, or an affiliate of such holder that unconditionally and absolutely guarantees (with such form of guarantee satisfying Standard & Poor's then-current (and publicly available) criteria with respect to guarantees) the obligations of such holder, are on such date rated "P-1" by Moody's (and not on a watchlist for possible downgrade

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by Moody's) and at least "A-1" by Standard & Poor's or (b) such holder is then entitled under a Liquidity Facility to borrow loans from, or sell Class A-1 Notes to, one or more financial institutions (each, a "Liquidity Provider") so long as the short-term debt, deposit or similar obligations of each such Liquidity Provider are rated "P-1" by Moody's and at least "A-1" by Standard & Poor's. A "Liquidity Facility" is a liquidity agreement providing for the several commitments of the Liquidity Providers party thereto to make loans to, or purchase interests in Class A-1 Notes from, such holder in an aggregate principal amount at any one time outstanding equal to or greater than the undrawn Commitment of such holder. The purchase of Class A-1 Notes (whether in connection with the initial sale or in a subsequent transfer) by any person who does not satisfy clause (a) of the definition of "Class A-1 Note Rating Criteria" at the time of such purchase but who is then entitled to the benefit of a Liquidity Facility described in clause (b) of such definition will be subject to the requirement that each Rating Agency shall have confirmed that the acquisition by such person will not result in a downgrade or withdrawal of its then-current rating, if any, of any Class of Notes. Pursuant to the Class A-1 Note Funding Agreement, any purchaser of the Class A-1 Notes that is entitled under a Liquidity Facility to borrow loans from Liquidity Providers may delegate to such Liquidity Providers, and such Liquidity Providers may severally agree to each perform their ratable share (determined in accordance with their respective commitments under the relevant Liquidity Facility) of, all of the purchaser's obligations under the Class A-1 Note Funding Agreement in respect of the Class A-1 Notes held by such purchaser.

Interest

The Class A-1 Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 0.25%. The Class A-2 Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 0.44%. The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 0.51%. The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 1.30%. The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 3.15%. The Class E Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 6.25%. Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed.

Interest will accrue on the Aggregate Outstanding Amount 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) for each related Interest Period, until such Notes are paid in full.

Payments of interest and Commitment Fee on the Notes and distributions, if any, on the Preference Shares will be payable in U.S. dollars quarterly (or, in the case of the Class A-1 Notes, monthly) in arrears on January 1, April 1, July 1 and October 1 of each year (each a "Distribution Date"), commencing with the Distribution Date in January 2007; *provided* that (i) the final Distribution Date with respect to the Notes will be the Stated Maturity, (ii) solely when used with respect to any payment made or to be made with respect to the Class A-1 Notes, the 1st day of each other calendar month shall also be a Distribution Date, (iii) if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day and (iv) the Accelerated Maturity Date shall be a Distribution Date.

So long as any Class of Notes is outstanding, if any Overcollateralization Test applicable to such Class is not satisfied on any Determination Date related to any Distribution Date, Interest Proceeds and, if necessary, Principal Proceeds that would otherwise be distributed to the Preference Shareholders or to make payments in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem the Notes in accordance with the Priority of Payments until each Overcollateralization Test is satisfied. In certain cases, Interest Proceeds will be applied to redeem the Notes in the inverse order of their seniority. See "Description of the Notes—Priority of Payments". The Overcollateralization Tests will not apply during the Ramp-Up Period.

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So long as any Class A-1 Notes, Class A-2 Notes or Class B Notes are outstanding, any interest due on the Class C Notes which is not paid as a result of the operation of the Priority of Payments on any Distribution Date (any such interest, "Class C Deferred Interest Amount") shall be deferred and added to the Aggregate Outstanding Amount of the Class C Notes, and shall not be considered "due and payable" until the Distribution Date on which funds are available to pay such Class C Deferred Interest Amount in accordance with the Priority of Payments; *provided* that no accrued interest on the Class C Notes shall become Class C Deferred Interest Amount unless Class A-1 Notes, Class A-2 Notes or Class B Notes are then outstanding. Class C Deferred Interest Amount accrued to any Distribution Date shall bear interest equal to LIBOR plus 1.30% *per annum* and shall be payable on the first Distribution Date on which funds are permitted to be used for such purpose in accordance with the Priority of Payments. Upon the payment of Class C Deferred Interest Amount, the Aggregate Outstanding Amount of the Class C Notes will be reduced by the amount of such payment.

So long as any Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes are outstanding, any interest due on the Class D Notes which is not paid as a result of the operation of the Priority of Payments on any Distribution Date (any such interest, "Class D Deferred Interest Amount") shall be deferred and added to the Aggregate Outstanding Amount of the Class D Notes, and shall not be considered "due and payable" until the Distribution Date on which funds are available to pay such Class D Deferred Interest Amount in accordance with the Priority of Payments; *provided* that no accrued interest on the Class D Notes shall become Class D Deferred Interest Amount unless Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes are then outstanding. Class D Deferred Interest Amount accrued to any Distribution Date shall bear interest equal to LIBOR plus 3.15% *per annum* and shall be payable on the first Distribution Date on which funds are permitted to be used for such purpose in accordance with the Priority of Payments. Upon the payment of Class D Deferred Interest Amount, the Aggregate Outstanding Amount of the Class D Notes will be reduced by the amount of such payment.

So long as any Class A-1 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, "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; *provided* that no accrued interest on the Class E Notes shall become Class E Deferred Interest Amount unless Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes or Class D Notes are then outstanding. Class E Deferred Interest Amount accrued to any Distribution Date shall bear interest equal to LIBOR plus 6.25% *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. "Defaulted Interest" means any interest due and payable in respect of any Note which is not punctually paid or duly provided for on the applicable Distribution Date or at Stated Maturity and which remains unpaid. So long as any Class A Notes or Class B Notes are Outstanding, the Class C Deferred Interest Amount, and so long as any Class A Notes, Class B Notes or Class C Notes are Outstanding, the Class D Deferred Interest Amount, and 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 shall not constitute Defaulted Interest.

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A Commitment fee (the "Commitment Fee") will accrue on the unfunded Commitments for each day from and including the Closing Date to but excluding the date the unfunded Commitments are reduced to zero, at a rate per annum equal to 0.05%. The Commitment Fee will be payable monthly in arrears on each Distribution Date and will rank *pari passu* with the payment of interest and Commitment Fee on the Class A-1 Notes. Commitment Fee paid on any Distribution Date shall include only such Commitment Fee that has accrued, if any, during the related Interest Period for the Class A-1 Notes; any Commitment Fee that accrues subsequent to the end of the related Interest Period but prior to the Distribution Date will be paid on the following Distribution Date. The Commitment Fee will be computed on the basis of a 360-day year and the actual number of days elapsed. No Class of Notes other than the Class A-1 Notes will be entitled to a Commitment Fee. See "Description of the Notes—Commitment Fee on Class A-1 Notes".

Definitions

"Aggregate Outstanding Amount" means, when used with respect to any of the Notes at any time, the aggregate principal amount of such Notes outstanding at such time. Except as otherwise expressly provided herein, (a) the Aggregate Outstanding Amount of any Class C Notes at any time shall include the Class C Deferred Interest Amount with respect to such Notes at such time, (b) the Aggregate Outstanding Amount of any Class D Notes at any time shall include the Class D Deferred Interest Amount with respect to such Notes at such time and (c) the Aggregate Outstanding Amount of any Class E Notes at any time shall include the Class E Deferred Interest Amount with respect to such Notes at such time.

"Interest Period" means (i) in the case of the initial Interest Period, the period from and including the Closing Date (or, with respect to any Borrowing under the Class A-1 Notes after the Closing Date, from the date of such Borrowing) to but excluding the first applicable Distribution Date and (ii) thereafter, the period from and including the Distribution Date immediately following the last preceding Interest Period to but excluding the next succeeding Distribution Date.

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

(1) "LIBOR" shall equal the offered rate, as determined by the Calculation Agent, for U.S. dollar deposits of three months (or, in the case of the Class A-1 Notes, 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 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 three months (or, in the case of the Class A-1 Notes, one month) (*except* that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for the relevant term commencing on the next following LIBOR Business Day), by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such LIBOR Determination Date made by the Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal the

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arithmetic mean of such quotations. If, on any LIBOR Determination Date, fewer than two Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Calculation Agent are quoting on the relevant LIBOR Determination Date for U.S. dollar deposits for the term of such Interest Period (*except* that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for the relevant term commencing on the next following LIBOR Business Day), to the principal London offices of leading banks in the London interbank market.

(3) In respect of any Interest Period having a Designated Maturity other than three months (or, in the case of the Class A-1 Notes, 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 10:00 a.m. (New York time) on the first day of such Interest Period for negotiable U.S. Dollar certificates of deposit of major U.S. money market banks having a remaining maturity closest to the Designated Maturity.

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

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

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 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

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11:00 a.m. (London time) on such date of determination made by the Calculation Agent to the Reference Banks. If, on any date of determination, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean. If, on any date of determination, fewer than two Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Calculation Agent are quoting on the relevant date of determination for U.S. dollar deposits for the term of one month, to the principal London offices of leading banks in the London interbank market.

(c) If the Calculation Agent is required but is unable to determine a rate in accordance with either procedure described in clauses (a) or (b) above, LIBOR with respect to such interest period shall be the arithmetic mean of the offered quotations of the Reference Dealers as of 10:00 a.m. (New York time) on the date of determination for negotiable U.S. dollar certificates of deposit of major U.S. money market banks having a remaining maturity closest to the Designated Maturity.

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

"Base Rate" means a fluctuating rate of interest determined by the Calculation Agent as being the rate of interest most recently announced by the Base Rate Reference Bank at its 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 Wells Fargo Bank, National Association, or if such bank ceases to exist or is not quoting a base rate, prime rate, reference rate or similar rate for Dollar loans, such other major money center commercial bank in New York City as is selected by the Calculation Agent.

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

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

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

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

As soon as possible after 11:00 a.m. (London time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (New York time) the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will notify the Co-Issuers, the Collateral Manager, the Trustee, 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 Notes is listed on the Irish Stock Exchange) and, if applicable, Euroclear and Clearstream, Luxembourg of the applicable *per annum* rate (the "Note Interest Rate") for each Class of Notes for the next Interest Period and the amount of interest for such Interest Period payable on the related Distribution Date in respect of each U.S.$1,000 principal amount of the 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 Manager the quotations upon which the Note Interest Rates are based. The Calculation Agent will in any event notify the Issuer before

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7:00 p.m. (London time) on each LIBOR Determination Date if it has not determined and is not in the process of determining the Note Interest Rates and the applicable amount of periodic interest for the Notes with respect to such Interest Period, together with its reasons therefor.

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

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

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

If and for so long as any Class of Notes is listed on the Irish Stock Exchange and for so long as the rules of such stock exchange so require, the Trustee will inform the Irish Listing Agent of the Aggregate Outstanding Amount of each Class of Notes following each Distribution Date and if any Class of Notes does not receive scheduled payments of principal or interest on a Distribution Date and the Irish Listing Agent will arrange for such information to be published in the Irish Stock Exchange's 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 October, 2050. Each Class of Notes is scheduled to mature at the applicable Stated Maturity unless redeemed or repaid prior thereto. However, the Notes may be paid in full prior to their Stated Maturity. See "Risk Factors—Average Life 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

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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 on such Distribution Date, the amount of any Class C Deferred Interest Amount, any Class D Deferred Interest Amount and 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, Principal Proceeds and Uninvested Proceeds may be applied by the Collateral Manager on any Business Day to purchase Collateral Debt Securities, in each case, subject to compliance with the Eligibility Criteria. In addition, during the Reinvestment Period, Principal Proceeds that would otherwise be applied on a Distribution Date pursuant to the Priority of Payments, after the payment of all payments required to be made prior to clause (18) in the Principal Proceeds Waterfall, may be deposited in the Collection Account, to remain available for application to the purchase of substitute Collateral Debt Securities (subject to satisfaction of the Eligibility Criteria) by not later than the last day of the Due Period relating to the Distribution Date immediately following such Distribution Date. As a result, except with respect to a payment of a Deferred Interest Amount or in connection with a payment resulting from a failure to satisfy an Overcollateralization Test, the Issuer is not expected to make any principal payments on the Notes from Principal Proceeds during the Reinvestment Period unless the Collateral Manager does not find sufficient reinvestment opportunities described under "Security for the Notes—Collateral Debt Securities" that are eligible for investment in accordance with the applicable Eligibility Criteria. See "Security for the Notes—Eligibility Criteria".

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

On any Distribution Date which occurs during a Sequential Pay Period and after the Reinvestment Period, principal of the Notes will be paid in direct order of seniority, with the principal of Class A-1 Notes being paid prior to the payment of principal of Class A-2 Notes, the principal of Class A-2 Notes being paid prior to the payment of the principal of Class B Notes, the principal of Class B Notes being paid prior to the payment of the principal of Class C Notes, 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; *provided*, *however*, that, notwithstanding the foregoing, (a) Interest Proceeds and (if required) Principal Proceeds may be applied in connection with any failure to satisfy an Overcollateralization Test as described in the third succeeding paragraph and (b) Interest Proceeds will be applied in accordance with the Priority of Payments to pay Deferred Interest Amounts.

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

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Pro Rata Principal Distribution Date, (iii) *third*, the principal amount of the Class D Notes up to the Class D Pro Rata Principal Payment Cap and (iv) *fourth*, the principal amount of the Class E Notes.

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 Measurement 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 on the Ramp-Up Completion Date. If the Sequential Pay Period commences, a Pro Rata Pay Period may not exist on any future Distribution Date.

If the Class A/B Overcollateralization Test is not satisfied on any Determination Date on or after the Ramp-Up Completion Date, Interest Proceeds (and, if necessary to cure such breach, Principal Proceeds), will be applied on the related Distribution Date to cure the breach of such Overcollateralization Test by paying principal of the Class A-1 Notes, the Class A-2 Notes and the Class B Notes, in direct order of seniority, until the Class A/B Overcollateralization Test has been satisfied. In the case of a breach of the Class C Overcollateralization Test, (i) Interest Proceeds that would otherwise be used to make payments on such Distribution Date in respect of interest on the Class D Notes and Class E Notes, certain fees and expenses and distributions on the Preference Shares will be used instead to pay principal of *first*, the Class C Notes, *second*, the Class B Notes, *third*, the Class A-2 Notes and, *fourth*, the Class A-1 Notes until the Class C Overcollateralization Test has been satisfied, and, (ii) if necessary to cure such breach, Principal Proceeds will be applied to pay principal of the Class A-1 Notes, then the Class A-2 Notes, then the Class B Notes and then the Class C Notes. In the case of a breach of the Class D Overcollateralization Test, (i) Interest Proceeds 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 used instead to pay principal of *first*, the Class D Notes, *second*, the Class C Notes, *third*, the Class B Notes, *fourth*, the Class A-2 Notes and *fifth*, the Class A-1 Notes until the Class D Overcollateralization Test has been satisfied, and, (ii) if necessary to cure such breach, Principal Proceeds will be applied to pay principal of the Class A-1 Notes, then the Class A-2 Notes, then the Class B Notes, then the Class C Notes and then the Class D Notes. In the case of a breach of the Class E Interest Diversion Test, Interest Proceeds will be applied to pay principal of the Class E Notes until the Class E Interest Diversion Test has been satisfied. See "—Priority of Payments—Interest Proceeds" and "—Principal Proceeds".

Mandatory Redemption

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

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Priority of Payments, to the payment of principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes, *fifth*, the Class D Notes and, *sixth*, the Class E Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation. See "Security for the Notes—Ramp-Up Period".

Auction Call Redemption

In accordance with the procedures set forth in the Indenture (the "Auction Procedures"), the Trustee shall, at the expense of the Issuer, conduct an auction (an "Auction") of the Collateral Debt Securities if, prior to the Distribution Date occurring in October, 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 October, 2014 and (2) if the Notes are not redeemed in full on the prior Distribution Date, ten Business Days prior to each Distribution Date thereafter until the Notes have been redeemed in full (each such date, an "Auction Date"). Any of the Preference Shareholders, the Collateral Manager, the Trustee or their respective affiliates may, but shall not be required to, bid at the Auction. The Trustee shall sell and transfer all of the Collateral Debt Securities (which may be divided into up to eight subpools) to the highest bidder therefor (or the highest bidder for each subpool) at the Auction; *provided* that:

(i) the Auction has been conducted in accordance with the Auction Procedures;

(ii) with respect to Collateral Debt Securities other than Credit Derivative Transactions and Credit Linked Securities with respect to which the Issuer may direct the termination of underlying credit derivative transactions:

(A) the Trustee has received bids for such Collateral Debt Securities from at least two qualified bidders identified to the Trustee by the Collateral Manager (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 clauses (iii) and (iv) 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) with respect to Credit Derivative Transactions and Credit Linked Securities with respect to which the Issuer may direct the termination of underlying credit derivative transactions, the Trustee will request that the related Synthetic Security Counterparty in respect of such Synthetic Security determine the net termination or assignment payment payable by or to the Issuer (or in the case of a Credit Linked Security, the Synthetic Security Issuer) assuming a termination or assignment date for the relevant Synthetic Security six Business Days prior to the relevant Distribution Date and, in the case of a Defeased Synthetic Security, the Trustee, with the assistance of the Collateral Manager, shall determine the amount (if any) that will be released from the related Synthetic Security Counterparty Account based on the information it receives with respect to the net termination or assignment payment; and

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(iv) the Trustee 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 (other than Credit Derivative Transactions and Credit Linked Securities with respect to which the Issuer may direct the termination of underlying credit derivative transactions) pursuant to clause (ii) above plus (II) the aggregate net termination or assignment payments that would be payable to the Issuer by Synthetic Security Counterparties (or Synthetic Security Issuers) as determined pursuant to clause (iii) above minus (III) the excess (if any) of (A) the aggregate net termination or assignment payments that would be payable under each Defeased Synthetic Security by the Issuer to the Synthetic Security Counterparty as determined pursuant to clause (iii) above over (B) the balance of all Eligible Investments standing to the credit of the Synthetic Security Counterparty Accounts plus (IV) the balance of all Eligible Investments and Cash in the Accounts (other than in any Hedge Counterparty Collateral Account, any Synthetic Security Counterparty Account and any Synthetic Security Issuer Account) plus (V) the aggregate amount (if any) that will be released from the Synthetic Security Counterparty Account following payment of the net termination or assignment payments described in the foregoing clauses (II) and (III), would be at least equal to the Total Senior Redemption Amount.

Provided that all of the conditions set forth in clauses (i), (ii), (iii) and (iv) above have been satisfied, (x) the Trustee shall sell and transfer the Pledged Collateral Debt Securities that are not Credit Derivative Transactions or Credit Linked Securities with respect to which the Issuer may direct the termination of underlying credit derivative transactions (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) and (y) the Issuer will terminate or assign the transactions under each Credit Derivative Transaction and each Credit Linked Security with respect to which the Issuer may direct the termination of underlying credit derivative transactions, in each case, (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, together with any Synthetic Security Collateral released from the Synthetic Security Counterparty Account, 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 and Commitment Fee 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 portion of the Total Senior Redemption Amount in accordance with the Priority of Payments and (z) make a payment to the Preference Share Paying Agent for distribution to the Preference Shareholders subject to the provisions of The Companies Law (2004 Revision) of the Cayman Islands governing the declaration and payment of dividends, in an amount equal to any portion of such purchase price remaining after the application contemplated by the foregoing clauses (x) and (y) (but at least equal to the Preference Share Redemption Date Amount), in each case on the Distribution Date immediately following the relevant Auction Date (such redemption, the "Auction Call Redemption"). Notwithstanding the foregoing, but subject to the satisfaction of the conditions described above, the Collateral Manager, 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, (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 that is not a Credit Derivative Transaction or a Credit Linked Security with respect to which the Issuer may direct the termination of underlying credit derivative transactions or (z) the relevant Synthetic Security Counterparty (or Synthetic Security Issuer) or assignee fails to pay any

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net termination or assignment payment owing to the Issuer under any Synthetic 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 or a failure by a Synthetic Security Counterparty (or Synthetic Security Issuer) or assignee to pay a net termination or assignment payment owing to the Issuer, 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 notice of the withdrawal of the redemption notice to the Issuer, the Collateral Manager and the holders of the Notes on or prior to the fifth Business Day preceding the scheduled Redemption Date (and shall provide such notice of withdrawal to each Hedge Counterparty at least six Business Days prior to the scheduled Redemption Date), (c) subject to clause (e) 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, (d) the Issuer shall not terminate or assign any Credit Derivative Transaction or Credit Linked Security with respect to which the Issuer may direct the termination of underlying credit derivative transactions in relation to such Auction and (e) 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 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 October, 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 a 66⅔% in Aggregate Outstanding Amount of any Class of Notes that, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal, interest and Commitment Fee 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.

The "Total Senior Redemption Amount" means, as of any Distribution Date, the aggregate amount required (without duplication) (a) to make all payments of accrued and unpaid amounts referred to in clauses (1) through (17) of the Interest Proceeds Waterfall and clauses (1) through (16) 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), to pay any fees and expenses incurred by the Trustee or the Collateral Manager in connection with the sale of Collateral Debt Securities and to pay any accrued and unpaid Management Fees, but excluding payments to the Preference Share Paying Agent for distribution to the Preference Shareholders, (b) to redeem all the Notes on the scheduled Redemption Date at the applicable Redemption Prices, together with all accrued and unpaid interest to (but excluding) the date of redemption and (c) solely in the case of an Auction Call Redemption pursuant to the Indenture, to make a payment to the Preference Share Paying Agent for distribution to the Preference Shareholders in an amount equal to the Preference Share

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Redemption Date Amount, if any (or such lesser amount as is agreed by Preference Shareholders whose aggregate Voting Percentages at such time equal 100% of all Preference Shareholders' Voting Percentages at such time).

Unless a Majority-in-Interest of Preference Shareholders have also directed 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 the amount necessary for the Issuer to obtain the Total Senior Redemption Amount. In addition, no Tax Redemption may be effected unless the Tax Materiality Condition is satisfied.

Notwithstanding the immediately preceding paragraph, in connection with any Tax Redemption, holders of at least 100% of the Aggregate Outstanding Amount of an Affected Class of Notes may elect to receive less than 100% of the portion of the Total Senior Redemption Amount that would otherwise be payable to holders of such Affected Class (and the Total Senior Redemption Amount will be reduced accordingly).

A "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, Synthetic Security Issuer or Synthetic Security Counterparty is required to deduct or withhold from any payment under a Hedge Agreement or a Synthetic Security on account of any tax and such Hedge Counterparty, Synthetic Security Issuer or Synthetic Security Counterparty is not obligated to make a gross up payment to the Issuer or the Issuer is required to make a gross up payment under a Hedge Agreement or under a Synthetic Security. The "Tax Materiality Condition" will be satisfied during any 12-month period if the sum of the following exceeds U.S.$1,000,000: (i) the aggregate amount deducted or withheld for or on account of any tax by all obligors from any payment under any Collateral Debt Security (net of any gross-up payment made by such obligor to the Issuer), (ii) the aggregate amount of any net income, profits or similar tax imposed on the Issuer and (iii) the aggregate of any amounts of any gross up payments required to be paid by the Issuer on account of tax under a Synthetic Security or a Hedge Agreement and the deficiencies in the amounts received by the Issuer as a result of any deduction or withholding for or on account of any tax with respect to any payment by any Hedge Counterparty under a Hedge Agreement or by the Issuer, any Synthetic Security Issuer or any Synthetic Security Counterparty under a Synthetic Security.

Redemption Procedures

Notice of an Optional Redemption, Auction Call Redemption or Tax Redemption will be given by first-class mail, postage prepaid, mailed not less than 10 Business Days prior to the date scheduled for redemption (the "Redemption Date"), to the Controlling Beneficiary and to each holder of Notes at such holder's address in the register maintained by the registrar under the Indenture, each Hedge Counterparty and to each Rating Agency. In addition, the Trustee will, if and for so long as any Class of Notes to be redeemed is listed on the Irish Stock Exchange, direct the Irish Paying Agent to (i) cause notice of such Auction Call Redemption, Optional Redemption or Tax Redemption to be delivered to the Company Announcements Office of the Irish Stock Exchange not less than 10 Business Days prior to the Redemption Date and (ii) promptly notify the Irish Stock Exchange of such Auction Call Redemption, Optional Redemption or Tax Redemption. Notes must be surrendered at the offices designated by any

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Paying Agent under the Indenture in order to receive the applicable Redemption Price, unless the holder provides (i) an undertaking to surrender such Note thereafter and (ii) in the case of a holder that is not a Qualified Institutional Buyer, such security or indemnity as may be required by the Co-Issuers or the Trustee. For so long as any Preference Shares are listed on the Channel Islands Stock Exchange, the Trustee shall (i) cause the notice of any Auction Call Redemption, Optional Redemption or Tax Redemption to be delivered to the CISX Sponsor (for delivery to the Channel Islands Stock Exchange) not less than 10 Business Days prior to the applicable record date with regard to the Preference Shares and (ii) promptly notify the CISX Sponsor of such Auction Call Redemption, Optional Redemption or Tax Redemption.

The Notes may not be redeemed pursuant to an Optional Redemption or Tax Redemption unless at least six Business Days before the scheduled Redemption Date, the Issuer shall have furnished to the Trustee and each Hedge Counterparty, and certified to the Trustee that the Issuer has entered into a binding agreement or agreements with (i) an entity that either satisfies the Rating Condition or whose long term unsecured debt obligations (other than such obligations whose rating is based on the credit of a person other than such institution) have a credit rating (or are guaranteed by an entity with such a credit 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) a purchaser which otherwise satisfies the Rating Condition, to sell, not later than the Business Day immediately preceding the scheduled Redemption Date, all or part of the Collateral Debt Securities at a purchase price which, when added to other Available Redemption Funds on the relevant Distribution Date, is at least equal to an amount sufficient to pay the Total Senior Redemption Amount (including the additional amount payable by the Issuer under the Hedge Agreements on a Redemption Date).

Any such notice of redemption with respect to an Optional Redemption or a Tax Redemption must be withdrawn by the Issuer on or prior to the fifth Business Day prior to the scheduled Redemption Date by written notice to the Trustee, the Preference Share Paying Agent and the holders of the Notes (with such notice of withdrawal to be delivered to the Hedge Counterparties on or prior to the sixth Business Day preceding the scheduled Redemption Date) 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, (2) an approved pricing service has confirmed each sales price contained in such certification (if such price is quoted on an approved pricing service) and (3) the sale prices of such Collateral Debt Securities are not below the fair market value of such Collateral Debt Securities or (ii) the independent accountants appointed by the Issuer have not confirmed in writing the calculations made in such certification. Any notice of redemption with respect to an Auction Call Redemption must be withdrawn under the circumstances described under "—Auction Call Redemption". Notice of any such withdrawal shall be given by the Trustee to the Controlling Beneficiary and to each holder of Notes at such holder's address in the Note Register maintained by the Note Registrar under the Indenture by overnight courier guaranteeing next day delivery, sent not later than the 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 (it being understood that notice of withdrawal of a redemption shall be delivered to each Hedge Counterparty on or prior to the sixth Business Day preceding the scheduled Redemption Date) shall become subject to early termination during such period, the Issuer is obligated to enter into a replacement Hedge Agreement.

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Redemption Price

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

Cancellation

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

Payments

Payments in respect of principal of, and interest and Commitment Fee on, any Note will be made to the person in whose name such Note is registered fifteen days prior to the applicable Distribution Date (the "Record Date"). Payments on each Note will be payable by wire transfer in immediately available funds to a Dollar account maintained by the holder thereof in accordance with wire transfer instructions received by any paying agent appointed under the Indenture (each, a "Paying Agent") on or before the Record Date or, if no wire transfer instructions are received by a Paying Agent in respect of such Note, by a Dollar check drawn on a bank in the United States mailed to the address of the holder of such Note as it appears on the Note Register at the close of business on the Record Date for such payment. Notes must be surrendered at the offices designated by any Paying Agent under the Indenture in order to receive the applicable Redemption Price, unless the holder provides in the case of a holder that is not a Qualified Institutional Buyer, such security or indemnity as may be required by the Co-Issuers or the Trustee. Pursuant to the Indenture, Custom House Administration and Corporate Services Limited in Dublin, Ireland will be appointed as paying agent in Ireland with respect to the Notes (the "Paying Agent in Ireland").

If any payment on the Notes is due on a day that is not a Business Day, then payment will be made on the next succeeding Business Day with the same force and effect as if made on the date for payment.

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

If any withholding tax is imposed on the Issuer's payment under the Notes to any Noteholder, such tax shall reduce the amount of such payment otherwise distributable to such Noteholder. The

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Trustee is authorized and directed under the Indenture to retain from amounts otherwise distributable to any Noteholder sufficient funds for the payment of any tax that is legally owed by the Issuer (but such authorization will not prevent the Trustee from contesting any such tax in appropriate proceedings and withholding payment of such tax, if permitted by law, pending the outcome of such proceedings). The amount of any withholding tax imposed with respect to any Noteholder will be treated as cash distributed to such Noteholder at the time it is withheld by the Trustee and remitted to the appropriate taxing authority. The Trustee will determine in its sole discretion whether to withhold tax with respect to a distribution in accordance with the Indenture. If any Noteholder wishes to apply for a refund of any such withholding tax, the Trustee will reasonably cooperate with such Noteholder in making such claim so long as such Noteholder agrees to reimburse the Trustee for any out-of-pocket expenses incurred. Failure of a holder of a Note to provide the Trustee or any Paying Agent and the Issuer with appropriate tax certificates will result in amounts being withheld from the payment to such holders. The Trustee has no obligation to determine the amount of any tax or withholding obligation on the part of the Issuer or in respect of the Collateral Debt Securities. 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 (with respect to Principal Proceeds, after the Ramp-Up Period) in the priority set forth below under "—Interest Proceeds" and "—Principal Proceeds", respectively (collectively, the "Priority of Payments"). "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 actually received by the Trustee no later than the Business Day next succeeding the last day of such Due Period. The "Distribution Date" relating to any Due Period shall be the Distribution Date that next succeeds the last day of such Due Period.

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

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

(2) (a) *first*, to the payment to the Trustee of the accrued and unpaid Trustee Fee; (b) *second*, to the payment to the Administrator of the accrued and unpaid fees under the Administration Agreement; (c) *third*, to the payment of accrued and unpaid Trustee Expenses (other than amounts payable pursuant to indemnities) under the Indenture (and, if an Event of Default has occurred and is continuing under the Indenture, payment to the Trustee of accrued and unpaid expenses (including amounts payable pursuant to the indemnity)), (d) *fourth*, to the payment of Rating Agency Expenses; (e) *fifth*, to the payment of Trustee Expenses constituting indemnities; (f) *sixth*, to the payment of accrued and unpaid Other Administrative Expenses then due and

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payable; *provided* that all payments made pursuant to subclauses (b) through (f) of this clause (2) do not exceed U.S.$200,000 for any Expense Year; and (g) *seventh*, if the balance of all Eligible Investments and cash in the Expense Account on the related Determination Date is less than U.S.$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 (f) of this clause (2) for any Expense Year 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;

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

(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 and Commitment Fee Amount with respect to the Class A-1 Notes;

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

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

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

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

(10) (a) if the Class C Overcollateralization Test is not satisfied on the related Determination Date and if any Class A-1 Note, Class A-2 Note, Class B Note or Class C Note remains outstanding, to the payment of principal of, *first*, the Class C Notes, *second*, the Class B Notes, *third*, the Class A-2 Notes and *fourth*, the Class A-1 Notes, until the Class 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-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes and *fourth*, 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 A-1 Note, Class A-2 Note, Class B Note, Class C Note or Class D Note remains outstanding, to the payment of principal of *first*, the Class D Notes, *second*, the Class C Notes, *third*, the Class B Notes, *fourth*, the Class A-2 Notes and *fifth*, the Class A-1 Notes, until the

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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 *first*, the Class A-1 Notes, *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes and *fifth*, the Class D Notes, to the extent specified by each relevant Rating Agency to obtain a Rating Confirmation;

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

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

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

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

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

(18) to the payment of *first*, accrued and unpaid Trustee Expenses and, *second*, accrued and unpaid Other Administrative Expenses, in each case in the priority of and to the extent not paid pursuant to clause (2) above (whether as the result of the limitations on amounts set forth therein or otherwise);

(19) to the payment of all Deferred Termination Payments payable by the Issuer pursuant to each Hedge Agreement to each Hedge Counterparty and Defaulted Synthetic Termination Payments payable by the Issuer to any Synthetic Security Counterparty pursuant to any Credit Derivative Transaction, *pro rata* among each of the Hedge Counterparties and any Synthetic Security Counterparties to which such payments are payable; and

(20) 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 Sale Proceeds invested or designated for investment in Collateral Debt Securities in accordance with the terms of the Indenture) 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 (7) of the Interest Proceeds Waterfall in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(2) after giving effect to any application of Uninvested Proceeds and Interest Proceeds, if the Class A/B Overcollateralization Test is not satisfied on the related Determination Date and if any

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Class A-1 Note, Class A-2 Note or Class B Note remains Outstanding, to the payment of principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes and, *third*, the Class B Notes, until the Class A/B Overcollateralization Test is satisfied or each such Class is paid in full;

(3) after giving effect to any application of Uninvested Proceeds and Interest Proceeds, and Principal Proceeds pursuant to the foregoing clauses of the Principal Proceeds Waterfall, if the Class C Overcollateralization Test is not satisfied on the related Determination Date and if any Class A-1 Note, Class A-2 Note or Class B Note remains Outstanding, to the payment of principal of, *first*, the Class A-1 Notes, *second*, the Class A-2 Notes and, *third*, the Class B Notes, until the Class C Overcollateralization Test is satisfied or each such Class is paid in full;

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

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

(6) for each Distribution Date in respect of which the related Determination Date occurs during a Pro Rata Pay Period and after the Reinvestment Period, to the payment of principal of the Class A-1 Notes, the Class A-2 Notes and the Class B Notes, *pro rata*, in accordance with their Aggregate Outstanding Amounts (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds, prior to this clause (6) of the Principal Proceeds Waterfall), in an aggregate amount up to the Class A/B Pro Rata Principal Payment Cap for such Distribution Date;

(7) after the Reinvestment Period, to the payment of Interest Distribution Amount with respect to the Class C Notes, but only to the extent not paid in full pursuant to clause (9) under "—Interest Proceeds";

(8) after giving effect to any application of Uninvested Proceeds and Interest Proceeds, and Principal Proceeds pursuant to the foregoing clauses of the Principal Proceeds Waterfall, (a) *first*, if the Class C Overcollateralization Test is not satisfied on the related Determination Date and if any Class C Note remains Outstanding, to the payment of principal of the Class C Notes, until the Class C Overcollateralization Test is satisfied or the Class C Notes are paid in full, and (b) *second*, if the Class D Overcollateralization Test is not satisfied on the related Determination Date and if any Class C Note remains Outstanding, to the payment of principal of the Class C Notes, until the Class D Overcollateralization Test is satisfied or the Class C Notes are paid in full;

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

(10) for each Distribution Date in respect of which the related Determination Date occurs during a Pro Rata Pay Period and after the Reinvestment Period, to the payment of principal of the Class C Notes in an aggregate amount up to the Class C Pro Rata Principal Payment Cap for such Distribution Date;

(11) and after the Reinvestment Period to the payment of Interest Distribution Amount with respect to the Class D Notes, but only to the extent not paid in full pursuant to clause (11) under "—Interest Proceeds";

(12) after giving effect to any application of Uninvested Proceeds and Interest Proceeds, and Principal Proceeds pursuant to the foregoing clauses of the Principal Proceeds Waterfall, 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 of the Class D Notes, until the Class D Overcollateralization Test is satisfied or the Class D Notes are paid in full;

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

(14) for each Distribution Date in respect of which the related Determination Date occurs during a Pro Rata Pay Period and after the Reinvestment Period, to the payment of principal of the Class D Notes in an aggregate amount up to the Class D Pro Rata Principal Payment Cap for such Distribution Date;

(15) after the Reinvestment Period, to the payment of Interest Distribution Amount with respect to Class E Notes, but only to the extent not paid in full pursuant to clause (13) under "—Interest Proceeds";

(16) after the Reinvestment Period, to the payment of principal of the Class E Notes until the Class E Notes are paid in full;

(17) after the Reinvestment Period, to the payment of amounts referred to in clauses (18) and (19) of the Interest Proceeds Waterfall in the same order of priority specified therein, but only to the extent not paid thereunder;

(18) for each Distribution Date through and including the last Distribution Date during the Reinvestment Period, to the Collection Account, to remain available for application to the purchase of substitute Collateral Debt Securities (subject to satisfaction of the Eligibility Criteria) by not later than the last day of the Due Period relating to the Distribution Date immediately following such Distribution Date, in an amount equal to the amount of Principal Proceeds received during the related Due Period (after giving effect to any payments pursuant to clauses (1) through (17) above); and

(19) 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.

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On any Distribution Date that is a Distribution Date solely with respect to the Class A-1 Notes, only Interest Proceeds distributable pursuant to clause (5) of the Interest Proceeds Waterfall shall be distributed.

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

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

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 funds are available therefor.

Any amounts to be paid to the Preference Share Paying Agent pursuant to clause (20) of the Interest Proceeds Waterfall or clause (19) 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 (19) of the Interest Proceeds Waterfall the principal amount of the Notes has not been paid in full, any amount distributable under clause (20) of the Interest Proceeds Waterfall shall be applied first to pay such principal (in order of seniority) of the Notes prior to making any distribution to the Preference Share Paying Agent.

If the Notes and the Preference Shares have not been redeemed prior to the Stated Maturity, it is expected that the Issuer will sell all of the Collateral Debt Securities and all Eligible Investments then standing to the credit of the Accounts (other than the Hedge Counterparty Collateral Account, any Synthetic Security Issuer Account and any Synthetic Security Counterparty Account) and sell or liquidate all other Collateral, and all net proceeds from such liquidation and all available cash will be applied to the payment (in the order of priorities set forth above) of all (i) fees, (ii) expenses (including the amounts due to each Hedge Counterparty), (iii) principal of and interest (including the Class C Deferred Interest Amount, the Class D Deferred Interest Amount, the Class E Deferred Interest Amount, Defaulted Interest and interest on Defaulted Interest, if any) on the Notes. Net proceeds from such liquidation and available cash remaining (after all payments required pursuant to the Indenture and the payment of the costs and expenses of such liquidation, the establishment of adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer, the payment to the Preference Shareholders of the aggregate liquidation preference of the Preference Shares, the return of U.S.$1,000 of capital contributed to the Issuer by, and the payment of a U.S.$1,000 profit fee to, the owner of the Issuer's ordinary shares) will be

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distributed to the Preference Shareholders in accordance with the Preference Share Documents and Cayman Islands law.

Certain Definitions

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

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

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

"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 (or, in the case of a Synthetic ABS CDO Security, the percentage assigned to such security by Moody's or, in the case of a Single Obligation Synthetic Security, other than a Synthetic ABS CDO Security, that is a Form Approved Synthetic Security, 100% of such percentage for the related Reference Obligation or such other percentage, if any, assigned by Moody's upon request by the Issuer or the Collateral Manager on behalf of the Issuer) in (x) the table corresponding to the relevant Specified Type of CDO Obligation or Other ABS, (y) the column in such table setting forth the Moody's Rating of such Collateral Debt Security as of the date of issuance of such Collateral Debt Security and (z) the row in such table opposite the ratio (expressed as a percentage) of (i) the Issue of which such Collateral Debt Security is a part relative to (ii) the total capitalization of (including both debt and equity securities issued by) the relevant issuer of or obligor on such Collateral Debt Security, determined on the original issue date of such Collateral Debt Security; *provided* that (1) if the Collateral Debt Security is a Corporate Guaranteed Security, the recovery rate will be 30%, (2) if such Collateral Debt Security is an ABS REIT Debt Security, such amount shall be 40% (or 10% in the case of REIT Debt Securities-Health Care or REIT Debt Securities-Mortgage) and (3) if the Collateral Debt Security is a Synthetic Security (other than a Single Obligation Synthetic Security that is a Form Approved Synthetic Security and that is not a Synthetic ABS CDO Security), the recovery rate will be that assigned by Moody's) and (b) an amount equal to the percentage

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for such Collateral Debt Security set forth in the Standard & Poor's recovery rate matrix set forth in Part II of Schedule A hereto (or, in the case of a Synthetic ABS CDO Security, the percentage assigned to such security by Standard & Poor's) or, in the case of a Single Obligation Synthetic Security, other than a Synthetic ABS CDO Security, that is a Form Approved Synthetic Security, 100% of such percentage for the related Reference Obligation) in (x) the applicable table and (y) the row in such table opposite the Standard & Poor's Rating of such Collateral Debt Security at the time of issuance and (z) the column in such table below the then current rating of the most senior Class of Notes outstanding; *provided* that if such Collateral Debt Security is a Synthetic Security (other than a Single Obligation Synthetic Security that is a Form Approved Synthetic Security and that is not a Synthetic ABS CDO Security), the recovery rate will be that assigned by Standard & Poor's.

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

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

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

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

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

"Class A Sequential Pay Ratio" means, as of any Measurement Date, the number (expressed as a percentage) calculated by dividing (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date by (b) the sum of (i) the Aggregate Outstanding Amount of the Class A-1 Notes plus (ii) the Aggregate Outstanding Amount of the Class A-2 Notes.

"Class A Sequential Pay Test" means, for so long as any Class A Notes remain outstanding, a test satisfied on any Determination Date occurring on or after the Ramp-Up Completion Date if the Class A Sequential Pay Ratio on such Measurement Date is equal to or greater than 103.32%.

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"Class A/B Pro Rata Principal Payment Cap" means, on any Distribution Date, an amount equal to (a) the amount of Principal Proceeds available in accordance with the Priority of Payments to make payments under clause (6) of the Principal Proceeds Waterfall multiplied by (b) the Aggregate Outstanding Amount of the Class A-1 Notes, Class A-2 Notes and Class B Notes (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (6) of the Principal Proceeds Waterfall) divided by (c) the Aggregate Outstanding Amount, excluding any Deferred Interest Amounts for purposes of this calculation, of the Class A-1 Notes, Class A-2 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 (6) of the Principal Proceeds Waterfall).

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

"Class C Pro Rata Principal Payment Cap" means, on any Distribution Date, an amount equal to (a) the amount of Principal Proceeds available in accordance with the Priority of Payments to make payments under clause (10) of the Principal Proceeds Waterfall multiplied by (b) the Aggregate Outstanding Amount of the Class C Notes (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (10) of the Principal Proceeds Waterfall, but excluding any Class C Deferred Interest Amount for purposes of this calculation) divided by (c) the Aggregate Outstanding Amount, excluding any Deferred Interest Amounts for purposes of this calculation, of the 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 (10) of the Principal Proceeds Waterfall).

"Class D Deferred Interest Amount" means so long as any Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes are outstanding, 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 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 (14) of the Principal Proceeds Waterfall multiplied by (b) the Aggregate Outstanding Amount of the Class D Notes (after giving effect to all payments of principal thereof on such Distribution Date, from Interest Proceeds and from Principal Proceeds prior to clause (14) of the Principal Proceeds Waterfall, but excluding any Class D Deferred Interest Amount for purposes of this calculation) divided by (c) the Aggregate Outstanding Amount, excluding any Deferred Interest Amounts for purposes of this calculation, of the Class D Notes and the 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 (14) of the Principal Proceeds Waterfall).

"Class E Deferred Interest Amount" means so long as any Class A-1 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.

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

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"Controlling Beneficiary" means (a) Merrill Lynch International (or its designee pursuant to this clause (a)) until such time as it gives notice to the Trustee and the Issuer that its designee is providing credit enhancement with respect to any Class A-1 Notes, whether in the form of a negative basis swap, a standby letter of credit, a surety bond, an insurance policy, a credit default swap or any other form of credit insurance or risk management and (b) notwithstanding the foregoing clause (a), there shall be no "Controlling Beneficiary" after the Person identified in clause (a) gives notice to the Trustee and the Issuer that it is no longer providing credit enhancement with respect to any Class A-1 Notes, whether in the form of a negative basis swap, a standby letter of credit, a surety bond, an insurance policy, a credit default swap or any other form of credit insurance or risk management.

"Credit Derivative Transaction" means a swap transaction or other credit derivative agreement entered into between the Issuer and a Synthetic Security Counterparty, which agreement may or may not provide for payments by the Issuer after the date on which it is pledged to the Trustee; *provided* that if a confirmation documenting a Credit Derivative Transaction between the Issuer and a Synthetic Security Counterparty references more than one transaction, each transaction shall be treated as a separate Credit Derivative Transaction.

"Credit Linked Security" means a credit-linked note, credit-linked trust certificate, credit-linked trust unit or other structured bond investment issued by a Synthetic Security Issuer that does not provide for payments by the Issuer after the date on which it is pledged to the Trustee; *provided* that if such Credit Linked Security references more than one underlying credit derivative transaction, the principal, notional or other nominal amount of such Credit Linked Security relating to each such credit derivative transaction shall be treated as a separate Credit Linked Security.

"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.

"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 Spread, each related to such Deemed Floating Rate Security, and (c) 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 in accordance with Schedule B 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.

"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

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a "Defaulted Security" under this paragraph if (i) the Collateral Manager certifies in writing to the Trustee, in its reasonable business judgment, that such payment default is due to non-credit and non-fraud related reasons and such default does not continue for more than five Business Days (or, if earlier, until the next succeeding Determination Date) or (ii) such payment default or failure to pay has been cured by the payment of all amounts that were originally scheduled to have been paid;

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

(4) as to which any bankruptcy, insolvency or receivership proceeding has been initiated in connection with the issuer thereof, or there has been proposed or effected any distressed exchange or other debt restructuring pursuant to which the issuer thereof has offered the holders thereof a new security or package of securities that, in the reasonable business judgment of the Collateral Manager, amounts to a diminished financial obligation or is intended solely to enable the relevant obligor to avoid defaulting in the performance of its payment obligations under such Collateral Debt Security; *provided* that a Collateral Debt Security shall not constitute a "Defaulted Security" under this clause (4) if such Collateral Debt Security was acquired in a distressed exchange or other debt restructuring and complies with the requirements of the definition of "Collateral Debt Security" and satisfies paragraphs (1) through (4), (6) through (11) (except with respect to the prohibition on a Credit Risk Security), (13) through (18) and (29) of the Eligibility Criteria at the time of acquisition thereof;

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

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

(7) that is a Defaulted Synthetic Security;

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

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

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

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

"Defeased Synthetic Security" means any Credit Derivative Transaction that requires payment by the Issuer after the date upon which it is pledged to the Trustee and that satisfies the following: (a) the Issuer has caused to be deposited in a Synthetic Security Counterparty Account an amount at least equal to the aggregate of all further payments (contingent or otherwise) that the Issuer is or may be required to make to the Synthetic Security Counterparty under such Synthetic Security; (b) the agreement relating to such Synthetic Security provides that during any period that the Synthetic Security Counterparty does not have (x) a short-term debt rating of "A-1+" and a long-term debt rating of at least "AA-" by Standard & Poor's and (y) a short-term debt rating of "P-1" by Moody's (and not on credit watch for downgrade) and a long-term debt rating of at least "Aa3" by Moody's (and not on credit watch for downgrade), on the first day of each payment period under such Synthetic Security, the Synthetic Security Counterparty will pay to the Issuer for deposit into the Synthetic Security Issuer Account the full amount owing for such period by the Synthetic Security Counterparty to the Issuer; (c) the agreement relating to such Synthetic Security

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contains "non-petition" provisions with respect to the Issuer and "limited recourse" provisions limiting the Synthetic Security Counterparty's rights in respect of the Synthetic Security to the funds and other property credited to the Synthetic Security Counterparty Account related to such Synthetic Security and (d) the agreement relating to such Synthetic Security contains provisions to the effect that upon the occurrence of an "Event of Default" or "Termination Event" (other than an "Illegality" or "Tax Event"), if any, where the Synthetic Security Counterparty is the sole "Defaulting Party" or the sole "Affected Party" ("Event of Default", "Termination Event", "Illegality", "Tax Event", "Defaulting Party" or "Affected Party", as applicable, as such terms are defined in the ISDA Master Agreement relating to such Synthetic Security) (x) the Issuer may terminate its obligations under such Synthetic Security and, upon such termination, any lien in favor of the Synthetic Security Counterparty over its related Synthetic Security Counterparty Account will be terminated and (y) upon payment of any termination amount payable under the Synthetic Security, the Issuer will no longer be obligated to make any payments to the Synthetic Security Counterparty with respect to such Synthetic Security.

"Defaulted Synthetic Termination Payment" means, with respect to any Synthetic Security, any termination payment (and any accrued interest thereon) payable by the Issuer pursuant to the Underlying Instruments relating thereto as a result of an "Event of Default" or "Termination Event" (other than an "Illegality" or "Tax Event") as to which the relevant Synthetic Security Counterparty is the "Defaulting Party" or the sole "Affected Party" (each as defined in such Underlying Instruments). For the avoidance of doubt, any unpaid amounts owed to the Synthetic Security Counterparty independent of any such termination payment shall be deemed not to be part of the Defaulted Synthetic Termination Payment.

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

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

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

"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.

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"Discount Security" means a Collateral Debt 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% 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% of its outstanding principal amount for 60 consecutive days following the initial valuation date on which such percentage was equaled or exceeded; (y) if such Collateral Debt Security is a Fixed Rate Security and has a Moody's Rating of Aa3 or higher at the time it is acquired by the Issuer, less than 85% 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% of its outstanding principal amount for 60 consecutive days 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% of the principal amount thereof; *provided* that a Collateral Debt Security shall cease to constitute a "Discount Security" for purposes of this clause (c) if the fair market value thereof equals or exceeds 85% of its outstanding principal amount for 60 consecutive days following the initial valuation date on which such percentage was equaled or exceeded.

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

"Expense Year" means each 12-month period commencing on the Business Day following an October Distribution Date (or in the case of the first Expense Year, the Closing Date) and ending on the following October Distribution Date.

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

"Form Approved Synthetic Security" means one or more Synthetic Securities, the form of the documents in respect of which either (a) was delivered to the Rating Agencies prior to the Closing Date in connection with the Offering and not disapproved by any of the Rating Agencies or (b) has satisfied the Rating Condition with respect to Moody's and Standard & Poor's; *provided* that (i) if Standard & Poor's or Moody's notifies the Trustee and Collateral Manager of a change to such Rating Agency's published methodology that is inconsistent with a Form-Approved Synthetic Security, then the Issuer may not enter into a Synthetic Security after the date on which such notice is received unless such Form-Approved Synthetic Security is modified to eliminate such inconsistency; and (ii) the Reference Obligation of each such Form-Approved Synthetic Security shall be a Specified Type.

"Interest Distribution Amount" means with respect to any Class of Notes and any Distribution Date, the sum of (i) the aggregate amount of interest accrued at the Note Interest Rate for such Class applicable for the Interest Period relating to such Class during the period from and including the immediately preceding Distribution Date to but excluding such Distribution Date, on the Aggregate Outstanding Amount of the Notes of such Class on the first day of such Interest Period (after giving effect

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to any redemption of the Notes of such Class or other payment of principal of the Notes of such Class on any preceding Distribution Date) plus (ii) any Defaulted Interest in respect of the Notes of such Class and accrued interest thereon.

"Interest Excess" means the lesser of (a) U.S.$2,000,000 and (b) the difference between (i) the sum of the Aggregate Principal Balance of the Pledged Collateral Debt Securities on the Ramp-Up Completion Date *plus* all Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Ramp-Up Completion Date *plus* all Principal Proceeds in the Collection Accounts on the Ramp-Up Completion Date *minus* (ii) U.S.$2,000,000,000; *provided, however*, that the Interest Excess shall be zero if a Rating Confirmation Failure occurs.

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

"Interest Proceeds" means, with respect to any Due Period, the sum (without duplication) of: (1) all payments of interest and other periodic payments in the nature of interest on the Collateral Debt Securities (other than interest 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); (2) all accrued interest received in Cash by the Issuer during such Due Period with respect to Collateral Debt Securities sold by the Issuer (including Sale Proceeds or other recoveries received in respect of Defaulted Securities, Deferred Interest PIK Bonds and Written Down 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 (i) any Synthetic Security Issuer Account, (ii) any Hedge Counterparty Collateral Account and (iii) interest on a security in a Synthetic Security Counterparty Account which is payable to the Synthetic Security Counterparty) and all payments of principal, including repayments, received in cash by the Issuer prior to the Distribution Date next following such Due 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) interest on securities credited to any Synthetic Security Counterparty Account that are otherwise not payable to a Synthetic Security Counterparty and all payments by a Synthetic Security Counterparty (including, for the avoidance of doubt, any fixed amounts and any interest shortfall reimbursement payment amounts) under a Synthetic Security other than Principal Shortfall Reimbursement Payments; (6) all amounts on deposit in the Expense Account, the Interest Reserve Account or the Semi-Annual Interest Reserve Account that are transferred to the Payment Account for application as Interest Proceeds as described below under "Security for the Notes—The Accounts"; (7) for the first Distribution Date following a Rating Confirmation, Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Ramp-Up Completion Date in an amount equal to the Interest Excess; (8) all scheduled payments received pursuant to any Hedge Agreements (excluding any payments received by the Issuer by reason of an event of default or termination event or that are received as a result of any partial termination of such Hedge Agreement other than the portion thereof consisting of accrued scheduled payments) less any scheduled payments payable by the Issuer under such Hedge Agreement during the period ending on (and including) the related Distribution Date and commencing on (but excluding) the prior Distribution Date (or, if there is no prior Distribution Date, the Closing Date); and (9) 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

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proceeds specifically defined as "Principal Proceeds" in the definition thereof, or (ii) any Excepted Property and (B) for purposes of clause (9) 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. Payments received by or made by the Issuer under a Hedge Agreement or a Synthetic Security on or prior to a Distribution Date shall be deemed to have been received during the Due Period related to such Distribution Date.

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

"Management Fee" means the fee payable to the Collateral Manager in arrears on each Distribution Date pursuant to the Collateral Management Agreement, in an amount equal to 0.08% *per annum* of the Average Quarterly Asset Amount for such Distribution Date; *provided* that the Management Fee will be payable on each Distribution Date only to the extent of funds available for such purpose in accordance with the Priority of Payments. Any accrued but unpaid Management Fee will be deferred. Any unpaid Management Fee that is deferred (whether as a result of the operation of the Priority of Payments as described herein or at the option of the Collateral Manager) shall be paid on the next succeeding Distribution Date(s) to the extent funds are available for such purpose in accordance with the Priority of Payments until paid in full and, except with respect to Deferred Management Fee Interest payable in connection with a Deferred Management Fee, shall not accrue interest. Any Management Fee that is deferred at the option of the Collateral Manager shall be payable on a subsequent Payment Date only pursuant to clause (18) of the Interest Proceeds Waterfall or clause (17) of the Principal Proceeds Waterfall. Any Management Fee accrued but not paid prior to the resignation or removal of a Collateral Manager shall continue to be payable to such Collateral Manager on the Distribution Date immediately following the effectiveness of such resignation or removal.

"Measurement Date" means any of the following: (a) the Closing Date; (b) the Ramp-Up Completion Date; (c) any date after the Ramp-Up Completion Date on which the Issuer disposes of a Collateral Debt Security or on which a Collateral Debt Security becomes a Defaulted Security, a Deferred Interest PIK Bond or a Written Down Security; (d) each Determination Date; (e) the last Business Day of each calendar month (other than any calendar month before a month in which a Determination Date occurs and any calendar month ending prior to the Ramp-Up Completion Date); (f) any date during the Reinvestment Period on which the Issuer acquires a Collateral Debt Security; and (g) with reasonable prior notice to the Issuer, the Collateral Manager and the Trustee, any other Business Day that any Rating Agency or holders of more than 50% of the Aggregate Outstanding Amount of any Class of Notes requests to be a "Measurement Date"; *provided* that if any such date would otherwise fall on a day that is not a Business Day, the relevant Measurement Date will be the next succeeding day that is a Business Day.

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"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) for the period from and including the date of issuance thereof to but excluding such date of determination over (b) the sum of (i) 5% 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 (g) and (h) of the definition of "Principal Balance" (taking into account the proviso to the definition of "Negative Amortization Security" in the case of such clauses (g) and (h) of the definition of "Principal Balance").

"Negative Amortization Security" means an ABS Type Residential 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 (g) and (h) 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 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 (or in connection with the calculation of the Trustee Fee, the outstanding principal amount of such Defaulted Security or Deferred Interest PIK Bond) minus (d) so long as there is a Controlling Beneficiary, the Overcollateralization Haircut Amount minus (except in connection with the calculation of the Trustee Fee) (e) solely for purposes of calculating the Net Outstanding Portfolio Collateral Balance in connection with the Overcollateralization Tests and 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 the "Eligibility Criteria" and for certain other purposes specified in the Indenture, on or prior to the Ramp-Up Completion Date, the Net Outstanding Portfolio Collateral Balance will equal U.S.$2,000,000,000.

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"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.

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

"Overcollateralization Haircut Amount" means an amount equal to the sum of: (a) with respect to Pledged Collateral Debt Securities (other than Written Down Securities and Defaulted Securities) that have a Moody's Rating of "Baa1", "Baa2" or "Baa3" or a Standard & Poor's Rating of "BBB+", "BBB" or "BBB-", the product of (x) 5% and (y) the amount by which the Aggregate Principal Balance of such Pledged Collateral Debt Securities exceeds 12.5% of the Aggregate Principal Balance of all Pledged Collateral Debt Securities; (b) with respect to Pledged Collateral Debt Securities (other than Written Down Securities and Defaulted Securities) that have a Moody's Rating of "Ba1", "Ba2" or "Ba3" or a Standard & Poor's Rating of "BB+", "BB" or "BB-", the product of (x) 15% and (y) the Aggregate Principal Balance of such Pledged Collateral Debt Securities; (c) with respect to Pledged Collateral Debt Securities (other than Written Down Securities and Defaulted Securities) that have a Moody's Rating of "B1", "B2" or "B3" or a Standard & Poor's Rating of "B+","B" or "B-", the product of (x) 30% and (y) the Aggregate Principal Balance of such Pledged Collateral Debt Securities; and (d) with respect to Pledged Collateral Debt Securities (other than Written Down Securities and Defaulted Securities) that have a Moody's Rating of "Caa1", "Caa2" or "Caa3" or a Standard & Poor's Rating of "CCC+", "CCC" or "CCC-", the greater of (i) the Aggregate Principal Balance of all Pledged Collateral Debt Securities minus the aggregate Fair Market Value of such Pledged Collateral Debt Securities; and (ii) the product of (x) the greatest of (1) 50%, (2) 100% minus the Moody's Weighted Average Recovery Rate and (3) 100% minus the Standard & Poor's Recovery Rate; and (y) the Aggregate Principal Balance of such Pledged Collateral Debt Securities; provided, that the applicability of this definition (including the applicable percentages and ratings, as well as the definitions used herein) may be modified, if the Rating Condition with respect to Moody's or Standard & Poor's is satisfied with respect to such modification and if notice of such change is delivered by the Collateral Manager to the Trustee, and by the Trustee to the Holders of the Notes and Preferred Shareholders; provided that the Controlling Beneficiary consents thereto in writing.

"PIK Bond" means (i) any security that (or any Synthetic Security the Reference Obligation of which), 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.

"Principal Balance" or "par" means, with respect to any pledged security or other Collateral Debt Security, as of any date of determination, the outstanding principal amount 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;

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(b) the Principal Balance of any Synthetic Security shall be equal to (i) in the case of any Credit Derivative Transaction that does not provide that the Issuer has any (contingent or otherwise) payment obligations to the Synthetic Security Counterparty after an initial payment thereunder and any Credit Linked Security, the aggregate amount of the repayment obligations of the Synthetic Security Counterparty or Synthetic Security Issuer, as applicable, payable to the Issuer through the maturity of such Synthetic Security and (ii) in the case of any Credit Derivative Transaction not described in the preceding clause (i), (1) at any time prior to the delivery of a notice of physical settlement, the notional amount of such Synthetic Security and (2) at any time following the delivery of a notice of physical settlement but prior to the receipt by the Issuer of the related Deliverable Obligation, the physical settlement amount of such Synthetic Security, in each case determined in accordance with the related Underlying Instruments;

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

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

(e) solely for the purpose of calculating the Net Outstanding Portfolio Collateral Balance in connection with either Overcollateralization Test or the Sequential Pay Test, (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 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 (g) below, in the case of the Overcollateralization Tests, or clause (h) below, in the case of the 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 Test and the Sequential Pay Test;

(f) the Principal Balance of any Step-Up Bond shall not include accreted interest thereon; and

(g) 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.

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

"Principal Proceeds" means with respect to any Due Period, the sum (without duplication) of: (1) any Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Ramp-Up Completion Date (other than any such Uninvested Proceeds to be used to complete the purchase of Collateral Debt Securities or any Interest Excess to be applied as Interest Proceeds); (2) all payments of principal of the Collateral Debt Securities received in cash by the Issuer during such Due Period (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,

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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 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) and any amounts (other than investment income) released from a Synthetic Security Counterparty Account (including termination payments made by the Synthetic Security Counterparty other than "Unpaid Amounts" as defined in the applicable Synthetic Security) after payment of all amounts owing by the Issuer to a Synthetic Security Counterparty pursuant to the Indenture; (4) all payments of principal received in cash by the Issuer prior to the Distribution Date next following such Due 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 (7) above received in Cash by the Issuer during such Due Period (but only to the extent of par or face amount of such securities); (9) all other payments received by the Issuer in such Due Period in connection with the Collateral Debt Securities and Eligible Investments (other than those standing to the credit of any Hedge Counterparty Collateral Account, Synthetic Security Issuer Account or Synthetic Security Counterparty Account) that are not included in Interest Proceeds (including, for the avoidance of doubt, any Principal Shortfall Reimbursement Payments under a Synthetic Security); (10) any proceeds resulting from the termination and liquidation of any Hedge Agreement (other than the portion thereof constituting accrued scheduled payments), to the extent such proceeds exceed the cost of entering into a replacement Hedge Agreement in accordance with the requirements set forth in the Indenture; (11) 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; and (12) all amounts on deposit in the Interest Reserve Account that are transferred to the Payment Account for application as Principal Proceeds as described herein under "Security for the Notes—The Accounts—Interest Reserve Account"; *provided* that in no event will Principal Proceeds include any Excepted Property.

"Principal Shortfall Reimbursement Payment" means amounts paid to the Issuer by a Synthetic Security Counterparty to reimburse the Issuer for (i) payments made by the Issuer to such counterparty in respect of principal on a Reference Obligation which was not paid at maturity, but which was paid by the Reference Obligor to the Synthetic Security Counterparty after the Issuer paid the amount thereof to the Synthetic Security Counterparty or (ii) payments made by the Issuer to such counterparty in respect of a principal writedown which was reinstated by the Reference Obligor after the Issuer paid such amount to the Synthetic Security Counterparty.

"Purchase Agreement" means the agreement dated as of the Closing Date among the Initial Purchaser, the Co-Issuers and Cohen & Company Securities, LLC, in its capacity as placement agent, relating to the placement of the Notes and Preference Shares.

"Reinvestment Period" means the period beginning on the Closing Date and ending on the earliest of (i) the Distribution Date occurring in October, 2011, (ii) date on which the Collateral Manager notifies

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the Trustee of its election to make no further investments in substitute Collateral Debt Securities, (iii) the date on which the Notes are redeemed in a Tax Redemption as described under "Description of the Notes—Optional Redemption and Tax Redemption" or (iv) the occurrence of an Event of Default and an election by the Controlling Class to terminate the Reinvestment Period.

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

"Rating Agency Expenses" means, with respect to any Distribution Date, all amounts due or accrued with respect to such Distribution Date and payable by the Issuer or the Co-Issuer to the Rating Agencies for fees and expenses in connection with any rating (including the annual fee 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.

"Reference Obligation" means (a) any CDO Security, (b) any Other ABS or (c) a specified pool of financial assets, either static or revolving (the composition of which cannot vary as a result of a decision by the Collateral Manager, the Synthetic Security Counterparty or the Synthetic Security Issuer, as applicable, or their respective affiliates), that by their terms convert into cash within a finite time period, in each case in respect of which the Issuer has entered into or acquired a Synthetic Security and which, if purchased by the Issuer, would satisfy paragraphs (6), (7), (8), (9) and (10) of the Eligibility Criteria and which is a Specified Type.

"Reference Obligor" means the obligor on a Reference Obligation.

"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. If the Sequential Pay Period commences, a Pro Rata Pay Period may not exist

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

"Synthetic Security" means a Credit Derivative Transaction or Credit Linked Security that has a probability of default, recovery upon default and expected loss characteristics closely correlated to a Reference Obligation (or expected loss characteristics corresponding to losses incurred above and/or below specified thresholds with respect to the Reference Obligation), but which may provide for a different maturity, interest rate or other non-credit characteristics than such Reference Obligation; *provided* that (a) such Synthetic Security shall not provide for any payment by the Issuer after the date on which it is pledged to the Trustee unless such security is a Defeased Synthetic Security, (b) such Synthetic Security terminates upon the redemption or repayment in full of the Reference Obligation, (c)(i) either (x) such Synthetic Security has a Moody's Rating, the Rating Condition with respect to Standard & Poor's has been satisfied and Moody's has assigned a recovery rate with respect to such Synthetic Security or (y) such Synthetic Security is a Form Approved Synthetic Security, and (ii) the Trustee has been notified in writing of the Applicable Recovery Rate assigned by each Rating Agency and, in the case of Moody's, the Moody's Rating Factor assigned by Moody's, (d) no amount receivable by the Issuer from the Synthetic Security Counterparty or the Synthetic Security Issuer will be subject to withholding tax, unless

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the Synthetic Security Counterparty or the Synthetic Security Issuer is required to make additional payments so that the net amount received by the Issuer is the amount due to the Issuer before the imposition of any withholding tax, (e) the acquisition (including the manner of acquisition), holding, disposition and enforcement of such Synthetic Security will not subject the Issuer to taxation on a net income basis in any jurisdiction outside of its jurisdiction of incorporation or cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. Federal income tax purposes, (f) the agreement relating to such Synthetic Security contains "non-petition" and "limited recourse" provisions with respect to the Issuer, and (g) so long as there is a Controlling Beneficiary, any pay as you go credit default swap shall, unless the Controlling Beneficiary shall otherwise consent or unless the related Form-Approved Synthetic Security provides otherwise (and is of a type identified in clause (i) of the definition of "Form-Approved Synthetic Security"), specify "Fixed Cap" in the manner specified in the form of confirmation published by the International Swaps and Derivatives Association, Inc.

"Synthetic Security Collateral" means in respect of any Defeased Synthetic Security entered into by the Issuer, (a) any Eligible Investments and (b) any CDO Security or Other ABS pledged by the Issuer to or for the benefit of the related Synthetic Security Counterparty that, if included in the Collateral, would satisfy paragraphs (1) through (4) and (6) through (19) of the Eligibility Criteria and is rated at least "Aa3" by Moody's and at least "AA-" by Standard & Poor's.

"Synthetic Security Counterparty" (a) in the case of a Credit Derivative Transaction, the entity that is obligated to make payments to the Issuer in respect thereof and (b) in the case of a Credit Linked Security with respect to which payments by the Synthetic Security Issuer depend on the receipt of payments from a counterparty pursuant to a credit derivative transaction, the entity that is obligated to make payments to the Synthetic Security Issuer in respect thereof, in either case which entity (or the guarantor of such entity's obligations under such Synthetic Security) , on the date such Synthetic Security is acquired by the Issuer, (A) is rated at least "A" by Standard & Poor's or has a short-term issuer credit rating from Standard & Poor's of at least "A-1" (provided, that such Synthetic Security Counterparty satisfies the other requirements of a Form-Approved Synthetic Security with respect to Standard & Poor's; and if such requirements are not satisfied, such entity or its guarantor must have ratings which satisfy the Rating Condition with respect to Standard & Poor's) and (B) has a long-term unsecured debt rating from Moody's of at least "A3" (and not on credit watch for downgrade), or has a short-term unsecured debt rating from Moody's, if rated by Moody's, of "P-1" (and not on credit watch for downgrade), or the selection of such entity satisfies the Rating Condition with respect to any Rating Agency for which the foregoing requirement is not satisfied.

"Synthetic Security Issuer" means the issuer of a Credit Linked Security.

"Synthetic Security Counterparty Defaulted Obligation" means a Synthetic Security (other than a Defaulted Synthetic Security) with respect to which: (a) the issuer credit rating of the Synthetic Security Counterparty is rated "D" or "SD" by Standard & Poor's (or had such rating at the time it was withdrawn by Standard & Poor's) or is rated below "A2" by Moody's; *provided* that the foregoing shall not apply in the case of a Defeased Synthetic Security so long as the Synthetic Security Counterparty shall periodically (and in no event less frequently than once each month) transfer collateral to the related Synthetic Security Issuer Account, together with all other collateral previously transferred, having a value at least equal to any termination payment that would be due to the Issuer upon the early termination of such Synthetic Security; or (b) the Synthetic Security Counterparty has defaulted in the performance of any of its payment or delivery obligations under the Synthetic Security.

"Trustee Expenses" means with respect to any Distribution Date, all expenses and indemnified amounts (other than fees) due or accrued with respect to such Distribution Date and payable by the Issuer or the Co-Issuer to (i) the Note Registrar, the Trustee or any co-trustee appointed pursuant to the Indenture, (ii) the Collateral Administrator pursuant to the Collateral Administration Agreement, (iii) the

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Preference Share Paying Agent pursuant to the Preference Share Paying Agency Agreement and (iv) the Custodian pursuant to the Account Control Agreement.

"Trustee Fee" means the fee payable, in accordance with the Priority of Payments, to Wells Fargo Bank, National Association in its capacities (or any successor to it in such capacities) as (i) Note Registrar and Trustee hereunder, (ii) Collateral Administrator under the Collateral Administration Agreement and (iii) Preference Share Paying Agent under the Preference Share Paying Agency Agreement in an amount, for (i), (ii) and (iii) combined, equal to, for each Distribution Date, 0.004% *per annum* of the Average Quarterly Asset Amount for the related Due Period, subject to a minimum of U.S.$40,000 *per annum*.

"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 and the Up-Front Payment, to the extent such proceeds (i) have not been deposited in the Expense Account or the Interest Reserve Account, (ii) are not subject to a commitment to invest, or have not been invested in, Collateral Debt Securities, in each case in accordance with the Indenture or (iii) have not been deposited in a Synthetic Security Counterparty Account.

"Warehouse Agreement" means the Warehouse Agreement dated as of December 20, 2005 between Merrill Lynch International and the Collateral Manager, as amended.

"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 Manager 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 Manager.

"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 Manager using customary procedures and information available in the servicer reports received by the Trustee relating to such Written Down Security.

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The Overcollateralization Tests

The Overcollateralization Tests applicable to a Class of Notes will be used primarily to determine whether and to what extent Interest Proceeds may be used to pay amounts payable to each Class of Notes Subordinate to such Class and to the Preference Share Paying Agent, for distribution to the Preference Shareholders, and certain other expenses. In the event that the Class A/B 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 C Notes, pay interest on the Class D Notes, pay interest on the Class E Notes, make distributions on the Preference Shares and to pay certain other expenses must instead be used to pay principal of the Notes in accordance with the Priority of Payments. In the event that the Class 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, pay interest on the Class E Notes, make distributions on the Preference Shares and to pay certain other expenses must instead be used to pay principal of the Notes in accordance with the Priority of Payments. In the event that 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 to pay certain other expenses must instead be used to pay principal of the Notes in accordance with the Priority of Payments. In the event that the Class E Interest Diversion Test is not satisfied on any Determination Date, Interest Proceeds that would otherwise be used to make distributions on the Preference Shares and to pay certain other expenses must instead be used to pay principal of the Class E Notes in accordance with the Priority of Payments. See "—Priority of Payments—Interest Proceeds". For the purpose of determining any payment to be made on any Distribution Date pursuant to any applicable clause of "Priority of Payments—Interest Proceeds", any 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".

Each of the Class A/B Overcollateralization Test, the Class C Overcollateralization Test, the Class D Overcollateralization Test and the Class E Interest Diversion Test is referred to herein individually as an "Overcollateralization Test" and collectively as the "Overcollateralization Tests". For purposes of the Overcollateralization Tests, unless otherwise specified, a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the Synthetic Security and not of the related Reference Obligation.

None of the Overcollateralization Tests will apply prior to the Ramp-Up Completion Date.

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

The "Class A/B Overcollateralization Ratio" is, as of any Measurement Date, the number (expressed as a percentage) calculated by <u>dividing</u> (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date <u>by</u> (b) the sum of (i) the Aggregate Outstanding Amount of the Class A-1 Notes <u>plus</u> (ii) the Aggregate Outstanding Amount of the Class A-2 Notes <u>plus</u> (iii) the Aggregate Outstanding Amount of the Class B Notes.

The "Class A/B Overcollateralization Test", for so long as any Class A-1 Notes, Class A-2 Notes or Class B Notes remain Outstanding, will be satisfied on any Measurement Date occurring on or after the Ramp-Up Completion Date if the Class A/B Overcollateralization Ratio on such Measurement Date is equal to or greater than 101.13%.

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The Class C Overcollateralization Test:

The "Class C Overcollateralization Ratio" is, as of any Measurement Date, the number (expressed as a percentage) calculated by dividing (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date by (b) the sum of (i) the Aggregate Outstanding Amount of the Class A-1 Notes plus (ii) the Aggregate Outstanding Amount of the Class A-2 Notes plus (iii) the Aggregate Outstanding Amount of the Class B Notes plus (iv) the Aggregate Outstanding Amount of the Class C Notes.

The "Class C Overcollateralization Test", for so long as any Class A-1 Notes, Class A-2 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 C Overcollateralization Ratio on such Measurement Date is equal to or greater than 100.76%.

The Class D Overcollateralization Test:

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-1 Notes plus (ii) the Aggregate Outstanding Amount of the Class A-2 Notes plus (iii) the Aggregate Outstanding Amount of the Class B Notes plus (iv) the Aggregate Outstanding Amount of the Class C Notes plus (v) the Aggregate Outstanding Amount of the Class D Notes.

The "Class D Overcollateralization Test", for so long as any Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes or 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 100.43%.

The Class E Interest Diversion Test:

The "Class E Overcollateralization Ratio" is, as of any Measurement Date, the number (expressed as a percentage) calculated by dividing (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date by (b) the sum of (i) the Aggregate Outstanding Amount of the Class A-1 Notes plus (ii) the Aggregate Outstanding Amount of the Class A-2 Notes plus (iii) the Aggregate Outstanding Amount of the Class B Notes plus (iv) the Aggregate Outstanding Amount of the Class C Notes plus (v) the Aggregate Outstanding Amount of the Class D Notes plus (vi) the Aggregate Outstanding Amount of the Class E Notes.

The "Class E Interest Diversion Test", for so long as any Class E Notes remain Outstanding, will be satisfied on any Measurement Date occurring on or after the Ramp-Up Completion Date if the Class E Overcollateralization Ratio on such Measurement Date is equal to or greater than 100.23%.

Form, Denomination, Registration and Transfer

General

(i) Regulation S Notes, which will be sold to persons that are not U.S. Persons in offshore transactions in accordance with Regulation S, will be represented by one or more permanent Regulation S Global Notes in definitive, fully registered form, without interest coupons, and deposited with the Trustee as custodian for, and registered in the name of, The Depository Trust Company ("DTC") or its nominee, initially for the accounts of Euroclear and Clearstream, Luxembourg. By acquisition of a beneficial interest in a Regulation S Global Note, any purchaser thereof will be deemed to represent that it is not a

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U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only to a person that is not a U.S. Person in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Note. Beneficial interests in each Regulation S Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and Indirect Participants, including Euroclear and Clearstream, Luxembourg.

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

(iii) The Notes are subject to the restrictions on transfer set forth in this Offering Circular under "Transfer Restrictions".

(iv) Owners of beneficial interests in Regulation S Global Notes and Restricted Global Notes will be entitled or required, as the case may be, under certain limited circumstances described below, to receive physical delivery of certificated Notes ("Definitive Notes") in fully registered, definitive form. No owner of an interest in a Regulation S Global Note will be entitled to receive a Definitive Note unless (1) for a person other than a distributor (as defined in Regulation S), such person provides certification (among other things) that the Definitive Note is beneficially owned by a person that is not a U.S. Person (as defined in Regulation S) or (2) for a person that is a U.S. Person, such person provides certification (among other things) that any interest in such Definitive Note was purchased in a transaction that did not require registration under the Securities Act. The Notes are not issuable in bearer form.

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

(vi) The Notes will be issuable in a minimum denomination of U.S.$250,000 and will be offered only in such minimum denomination or an integral multiple of U.S.$1,000 in excess thereof.

(vii) After issuance, a Note may fail to be in compliance with the minimum denomination requirement stated above as a result of the repayment of principal thereof in accordance with the Priority of Payments.

(viii) After issuance, Class C Notes may fail to be in an amount which is an integral multiple of U.S.$1,000 due to the addition to the principal amount thereof of Class C Deferred Interest Amount, Class D Notes may fail to be in an amount which is an integral multiple of U.S.$1,000 due to the addition to the principal amount thereof of Class D Deferred Interest Amount, and 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 E Deferred Interest Amount.

(ix) No Class D Note or Class E Note shall be issued as a Restricted Global Note. Class D Notes and Class E Notes offered and sold in the United States pursuant to an exemption from the registration requirements of the Securities Act shall be issued in, definitive fully Registered Form without interest coupons, substantially in the form of the certificated note attached as Exhibit A-3 to the Indenture

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(each a "***Definitive Note***"), which may be either a Regulation S Definitive Note or a Restricted Definitive Note, with such legends as may be applicable thereto, which shall be duly executed by the Issuer and the Co-Issuer and authenticated by the Trustee or the Authenticating Agent as hereinafter provided.

(x) The Co-Issuers in issuing the Notes may use "CUSIP" or "private placement" numbers (if then generally in use), and, if so, the Trustee will indicate the "CUSIP" or "private placement" numbers of the Notes in notices of redemption and related materials as a convenience to Holders; *provided* that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of redemption and related materials. The Co-Issuers may use different "CUSIP" numbers for different Borrowings made with respect to the Class A-1 Notes. In connection therewith, the Trustee shall, on any Business Day after the Commitment Period Termination Date, direct DTC to exchange such "CUSIP" numbers for a single "CUSIP" number in respect of the Aggregate Outstanding Amount of the Class A-1 Notes (which single "CUSIP" number may be the "CUSIP" number assigned in respect of the Borrowing made on the Class A 1 Notes on the Closing Date).

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 and the Notes and members of, or participants in, the depositary (the "Participants") as well as any other persons on whose behalf Participants may act (including Euroclear and Clearstream, Luxembourg and account holders and participants therein) will have no rights under the Indenture or under a Note. Owners of beneficial interests in a Global Note will not be considered to be the owners or holders of any Note under the Indenture or the Notes. In addition, no beneficial owner of an interest in a Global Note will be able to exchange or transfer that interest, except in accordance with the applicable procedures of the depositary and (in the case of a Regulation S Global Note) Euroclear or Clearstream, Luxembourg (in addition to those under the Indenture), in each case to the extent applicable (the "Applicable Procedures").

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

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

(iv) With respect to the Global Notes, the Issuer expects that the depositary for any Global Note or its nominee, upon receipt of any payment of principal of or interest on such Global Note, will

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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. Definitive Notes will be exchangeable or transferable for interests in other Definitive Notes as described below.

Transfer and Exchange of Notes

(i) Transfers by a holder of a beneficial interest in a Regulation S Global Note to a transferee who takes delivery of such interest in the form of a beneficial interest in a Restricted Global Note will be made only in accordance with the Applicable Procedures and upon receipt by the Note Registrar of written certifications from the transferor of the beneficial interest in the form provided in the Indenture to the effect that, among other things, such transfer is being made (a) to a person whom the transferor reasonably believes is a (x) Qualified Institutional Buyer to whom notice is given that the transfer is being made in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act and (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 no later than 60 days after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred only in accordance with the Applicable Procedures, and, if applicable, upon receipt by the Note Registrar of a written certification from the transferor in the form provided in the Indenture.

An owner of a beneficial interest in a Regulation S Global Note (other than a Class D Note or Class E Note issued in the form of 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

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an offshore transaction in accordance with Rule 904 of Regulation S may be made only upon provision to the Trustee, the Co-Issuers and the Note Registrar of written certification from the transferee and transferor in the form provided for in the Indenture.

An owner of a beneficial interest in a Class D Note or a Class E Note issued in the form of a Regulation S Global Note may transfer such interest, *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; (2) any transfer not effected in an offshore transaction in accordance with Rule 904 of Regulation S may be made only upon provision to the Note Registrar of written certification from the transferee and transferor in the form provided for in the Indenture and (3) any transferee acquiring an interest in a Class D Note or a Class E Note in the form of a Regulation S Global Note will be deemed to represent that the transferee is not a Benefit Plan Investor and that it will not transfer such interest except in compliance with the transfer restrictions set forth in the Indenture including the requirement that the transferee is not a Benefit Plan Investor.

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 (unless such beneficial owner is an Accredited Investor that purchased such Restricted Note (or any interest therein) directly from the Co-Issuers or the Initial Purchaser) and also a Qualified Purchaser, then either of the Co-Issuers 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, the Trustee shall, 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 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.

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 Class D Note or Class E Note, the Issuer (or the Collateral Manager on its behalf) shall require, by notice to such Benefit Plan Investor, that such Benefit Plan Investor sell all of its right, title and interest in or to such Class D Note or Class E Note in accordance with the Indenture, 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 Collateral Manager or the Issuer, the Trustee shall cause its interest in such Class D Note or Class E Note to be transferred in a commercially reasonable sale arranged by the Collateral Manager (conducted by the Trustee or an investment bank selected by the Trustee in accordance with Section 9-610(b) of the Uniform Commercial

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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, the Issuer and the Collateral Manager, in connection with such transfer, that such Person satisfies the requirements for a purchaser of a Class D Note or Class E Note and (y) pending such transfer, no further payments will be made in respect of such Class D Note or Class E Note and such Class D Note or Class E Note shall not be deemed to be outstanding for the purpose of any vote or consent of the Noteholders.

(ii) Transfers by a holder of a beneficial interest in a Restricted Global Note to a transferee who takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Note will be made only in accordance with the Applicable Procedures and upon receipt by the Note Registrar of written certification from the transferor 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 no later than 60 days after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred only in accordance with the Applicable Procedures, and, if applicable, upon receipt by the Note Registrar of a written certification from the transferor in the form provided in the Indenture.

An owner of a beneficial interest in a 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.

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

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

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

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

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

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(viii) 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.

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

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

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

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

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(xiii) Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in Global Notes among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Co-Issuer and the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

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

No Gross-Up

All payments made by the Issuer under the Notes will be made without any deduction or withholding for or on the account of any tax unless such deduction or withholding is required by applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If the Issuer is so required to deduct or withhold, then the Issuer will not be obligated to pay any additional amounts in respect of such withholding or deduction.

The Indenture

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

Events of Default

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

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

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

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Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, such default continues for a period of five Business Days);

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

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

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

(vii) so long as there is a Controlling Beneficiary, the failure of the Class A Sequential Pay Ratio to be equal to or greater than 100% on any Measurement Date occurring on or after the Ramp-Up Completion Date; or

(viiii) so long as there is a Controlling Beneficiary, any termination of the Hedge Agreement by reason of an "event of default" or "termination event" as to which the Hedge Counterparty is the sole "defaulting party" or the sole "affected party" (as each such term is defined in the Hedge Agreement) and the Issuer fails to enter into a replacement Hedge Agreement as required pursuant to the Indenture within 180 days after such termination.

If either of the Co-Issuers obtains actual knowledge that an Event of Default has occurred and is continuing, such Co-Issuer is obligated to (unless the Trustee has provided notice of such Event of Default to the Co-Issuers pursuant to the Indenture) promptly notify the Trustee, the Preference Share Paying Agent, the Noteholders, the Controlling Beneficiary, the Collateral Manager, each Hedge Counterparty and each Rating Agency of such Event of Default in writing.

If an Event of Default occurs and is continuing (other than an Event of Default described in clause (vi) of the definition of "Event of Default"), the Trustee (at the direction of the holders of a majority in Aggregate Outstanding Amount of the Controlling Class) and otherwise holders of a majority in Aggregate Outstanding Amount of the Controlling Class, may declare the principal of and accrued and unpaid interest and Commitment Fee on all of the Notes to be immediately due and payable. If an Event of Default described in clause (vi) of the definition of "Event of Default" occurs, such an acceleration and termination of the Reinvestment Period will occur automatically and without any further action. Notwithstanding the foregoing, if the sole Event of Default is an Event of Default described in clause (i) or clause (ii) of the definition of "Events of Default" with respect to a default in the payment of any

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principal of or interest and Commitment Fee on the Notes of a Class other than the Controlling Class, neither the Trustee nor the holders of such non-Controlling Class will have the right to declare such principal and other amounts to be immediately due and payable. Any declaration of acceleration may under certain circumstances be rescinded by the holders of a majority in Aggregate Outstanding Amount of Notes of the Controlling Class. The "Controlling Class" means the Class A-1 Notes or, if there are no Class A-1 Notes outstanding, *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. "Default" means any Event of Default or any occurrence that, with notice or the lapse of time or both, would become an Event of Default.

If an Event of Default occurs and is continuing when any Note is outstanding, 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 would be sufficient to discharge in full the amounts of principal, interest and Commitment Fee then due and unpaid in respect of the Notes (including the Class C Deferred Interest Amount, the Class D Deferred Interest Amount, the Class E Deferred Interest Amount, Defaulted Interest and interest on Defaulted Interest, if any), and to pay certain due and unpaid Administrative Expenses, all amounts due to the Hedge Counterparties (including any termination payment and any accrued interest thereon assuming for this purpose, that each Hedge Agreement has been terminated by reason of an event of default or termination event with respect to the Issuer) and accrued and unpaid Management Fees, and the holders of at least $66^2/_3$% in Aggregate Outstanding Amount of the Controlling Class of Notes agree in writing with such determination;

(B) the holders of at least $66^2/_3$% in Aggregate Outstanding Amount of each Class of Notes voting as a separate Class and each Hedge Counterparty (unless no early termination payment would be owing by the Issuer to such Hedge Counterparty upon the termination thereof by reason of an event of default or termination event under the relevant Hedge Agreement with respect to the Issuer), subject to the provisions of the Indenture, direct the sale of the Collateral; or

(C) so long as there is a Controlling Beneficiary, the Controlling Beneficiary directs the sale and liquidation of the Collateral if (A) an Event of Default has occurred and is continuing pursuant to Section 5.1(a) in respect of the Class A-1 Notes or (B) an Event of Default has occurred and is continuing pursuant to Section 5.1(h) and, in the case of clause (B), the Holders of at least $66^2/_3$% in Aggregate Outstanding Amount of the Class A Notes consent to such direction.

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, the Collateral Manager, 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. Notwithstanding the foregoing, in no event shall any application of the proceeds of any sale or liquidation of the Collateral following an Event of Default occur prior to the earlier of (x) the sixth

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Business Day after the date on which any of the conditions set forth in clauses (A), (B) and (C) above is satisfied and (y) the date on which amounts (if any) payable by the Issuer to the Hedge Counterparty due to an "Early Termination Event" (as defined in the relevant Hedge Agreement) become due and payable.

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

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

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) or Commitment Fee on the Notes, in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of the holder of each outstanding Note affected thereby, or arising as a result of an Event of Default described in clause (vi) of the definition of "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 Event of Default, (ii) except in certain cases of a default in the payment of principal or interest, the holders of at least 25% in Aggregate Outstanding Amount of the Notes of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such holders have offered the Trustee indemnity satisfactory to it, (iii) the Trustee has for 30 days failed to institute any such proceeding and (iv) no direction inconsistent with such written request has been given to the Trustee during such 30 day period by the holders of a majority in Aggregate Outstanding Amount of the Notes of the Controlling Class.

If the Trustee shall receive conflicting or inconsistent requests from two or more groups of holders of the Notes of the Controlling Class, each representing less than a majority 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.

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 Manager under the Collateral Management Agreement or the Indenture (including the exercise of any right to remove the Collateral Manager or terminate the Collateral Management Agreement), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager, Notes or Preference Shares owned by the Collateral Manager or any of its Affiliates, or by any accounts managed by them, shall be disregarded and deemed

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not to be outstanding; provided that the Collateral Manager 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.

Notices

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

Modification of the Indenture

With the consent of (x) the holders of not less than a majority in Aggregate Outstanding Amount of the outstanding Notes of each Class materially and adversely affected thereby and a Majority-in-Interest of Preference Shareholders (if materially and adversely affected thereby) and (y) each Hedge 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, the Trustee is entitled to receive and conclusively rely upon an officer's certificate of the Issuer (or of the Collateral Manager on behalf of the Issuer) or an opinion of counsel, provided by and at the expense of the Issuer, stating whether or not any Class of Notes or the Preference Shares would be materially and adversely affected by such change. 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, (a) the Trustee shall not enter into any supplemental indenture (including a supplemental indenture entered into pursuant to Section 8.1 or 8.2 of the Indenture) that (i) modifies the rights or obligations of the Controlling Beneficiary in any respect, (ii) modifies the definition of "Specified Type" or (iii) that modifies the definition of "Special Purpose Vehicle Jurisdiction" without the prior written consent of the Controlling Beneficiary, and (b) 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 or Commitment Fee on any Note, reduces the principal amount thereof or the rate of interest or Commitment Fee thereon, or the redemption price with respect thereto, changes the earliest date on which the Issuer may redeem any Note, changes the Priority of Payments so as to affect application of proceeds of any Collateral to the payment of principal of or interest or Commitment Fee on the Notes or distributions on the Preference Shares, changes any place where, or the

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coin or currency in which, any Note or the principal thereof or interest or Commitment Fee thereon is payable, or impairs the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the applicable redemption date) or changes the date on which any distribution in respect of the Preference Shares is payable, (ii) reduces the percentage in Aggregate Outstanding Amount of holders of Notes of each Class or the percentage of holders of Preference Shares (as applicable) whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder or their consequences or to request that the Trustee preserve the Collateral pledged under the Indenture or rescind the Trustee's election to preserve the Collateral or to sell or liquidate the Collateral pursuant to the Indenture, (iii) materially impairs or materially adversely affects the Collateral pledged under the Indenture except as otherwise permitted thereby, (iv) permits the creation of any lien ranking prior to or on a parity with the lien created by the Indenture with respect to any part of the Collateral other than the security interest granted to the Synthetic Security Counterparty over the Synthetic Security Counterparty Account or terminates such lien on any property at any time subject thereto (other than in connection with the sale or exchange thereof in accordance with, or as otherwise permitted by, the Indenture) or deprives the holder of any Note of the security afforded by the lien created by the Indenture except, in each of the foregoing cases, as otherwise permitted by the Indenture, (v) modifies any of the provisions of the Indenture with respect to supplemental indentures requiring the consent of Noteholders except to increase the percentage of the Aggregate Outstanding Amount of holders of Notes of each Class or the percentage of holders of Preference Shares (as applicable) whose consent is required for any action or to provide that other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Note affected thereby, (vi) modifies the definition of the term "Outstanding", the definition of the term "Event of Default" or the subordination or priority of payments provisions of the Indenture, (vii) increases the permitted minimum denominations of any Class of Notes, (viii) modifies any of the provisions of the Indenture in such a manner as to affect directly the calculation of the amount of any payment of interest or Commitment Fee on or principal of any Note or the right of the holders of Notes to the benefit of any provisions for the redemption of such Notes contained therein or to adversely affect the rights of the Preference Shareholders to the benefit of any provisions for the redemption of the Preference Shares contained therein, or (ix) amends the "non-petition" or "limited recourse" provisions of the Indenture or the Notes. The Trustee may not enter into any supplemental indenture unless the Rating Condition 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.

The Co-Issuers and the Trustee may also enter into supplemental indentures without obtaining the consent of holders of any Notes, the Preference Shareholders or any Hedge Counterparty (except to the extent such consent is required under the applicable Hedge Agreement), in order to (i) evidence the succession of any person to the Issuer or the Co-Issuer and the assumption by such successor of the covenants in the Indenture and the Notes, (ii) add to the covenants of the Co-Issuers or the Trustee for the benefit of the holders of all of the Notes or to surrender any right or power conferred upon the Co-Issuers, (iii) convey, transfer, assign, mortgage or pledge any property to the Trustee for the benefit of the Secured Parties, (iv) evidence and provide for the acceptance of appointment by a successor trustee and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee, (v) correct or amplify the description of any property at any time subject to the lien created by the Indenture, or to better assure, convey and confirm unto the Trustee any property subject or required to be subject to the lien created by the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations) or to subject to the lien created by the Indenture any additional property, (vi) modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or in accordance with the USA PATRIOT Act,

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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 by or to the Issuer or the Co-Issuer or to avoid the Issuer or the Co-Issuer being required to register as an investment company under the Investment Company Act or avoid the application of the German Investment Tax Act to the Issuer or to any of the Offered Securities, (xii) accommodate the issuance of any Class of Notes as Definitive Notes, (xiii) to correct any non-material error in any provision of the Indenture upon receipt by the Trustee of written direction from the Issuer describing in reasonable detail such error and the modification necessary to correct such error, (xiv) conform the Indenture to this Offering Circular, (xv) make any change required in order to permit or maintain a listing on any exchange, (xvi) correct any manifest error in the Indenture, (xvii) amend or otherwise modify (a) if the 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; or (xviii) accommodate, modify or amend existing and/or replacement hedge agreements or enter into one or more additional hedge agreements or accommodate, modify, or amend such additional hedge agreements, or replacements therefor.

In each case (other than pursuant to clause (xiv) or (xvi)), the Trustee may not enter into a supplemental indenture, unless such supplemental indenture would not materially and adversely affect any Class of Notes or the Preference Shareholders. The Trustee may not enter into any such supplemental indenture if, with respect to such supplemental indenture, the Rating Condition with respect to the applicable Rating Agency or Rating Agencies 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 Manager.

The Trustee may rely upon an officer's certificate of the Issuer (or the Collateral Manager on its behalf) or an opinion of counsel, provided by and at the expense of the Issuer, as to whether the interests of any Class of Notes or the Preference Shareholders would be materially and adversely affected by any such supplemental indenture. 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 Manager if such supplemental indenture alters the rights or obligations of the Collateral Manager in any respect, and the Collateral Manager will not be bound by any such supplemental indenture unless the Collateral Manager has consented thereto. The Trustee will not enter into any supplemental indenture that (i) modifies the rights or obligations of the Controlling Beneficiary in any

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respect, (ii) modifies the definition of "Specified Type" or (iii) that modifies the definition of "Special Purpose Vehicle Jurisdiction" without the prior written consent of the Controlling Beneficiary.

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

Promptly after the execution by the Co-Issuers and the Trustee of any supplemental indenture, the Trustee, at the expense of the Co-Issuers, will mail to the holders of the Notes, the Controlling Beneficiary, the Collateral Manager, the Preference Share Paying Agent, each Hedge Counterparty, the Paying Agent in Ireland (if and for so long as any Class of Notes is listed thereon), the CISX (so long as any Preference Shares are 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 Account Control Agreement, the Collateral Management 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. Prior to granting any waiver in respect of any of the foregoing agreements, the Issuer is required to provide each Rating Agency, the Collateral Manager, each Hedge Counterparty and the Trustee with written notice of such waiver. The amendment to and waiver of provisions of the Collateral Management Agreement are also subject to additional restrictions as described herein under "The Collateral Management Agreement". Certain Synthetic Security Counterparties, each Hedge Counterparty, the Collateral Manager, the Controlling Beneficiary and each Preference Shareholder will be an express third party beneficiary of the Indenture.

Consolidation, Merger or Transfer of Assets

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

Petitions for Bankruptcy

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

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Satisfaction and Discharge of Indenture

The Indenture will be discharged with respect to the Collateral upon delivery to the Trustee for cancellation of all of the Notes, or, subject to certain limitations, upon deposit with the Trustee of funds sufficient for the payment or redemption of the Notes and the payment by the Co-Issuers of all other amounts due under the Notes, the Indenture, the Collateral Administration Agreement, the Administration Agreement, each Hedge Agreement and the Collateral Management Agreement.

Trustee

Wells Fargo Bank, National Association, located at 9062 Old Annapolis Road, Columbia, Maryland 21045, will be the Trustee under the Indenture. The Co-Issuers and their respective affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee is solely the obligation of the Co-Issuers. The Trustee and its affiliates may receive compensation in connection with the investment of trust assets in certain Eligible Investments as provided in the Indenture. Eligible Investments may include investments for which the Trustee and/or its affiliates provide services. The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. Pursuant to the Indenture, the Issuer has granted to the Trustee a lien senior to that of the Noteholders to secure payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer under the 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 Manager and the Preference Share Paying Agent, and (ii) the Trustee may be removed at any time by holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of the Notes or at any time on 10 days' prior written notice when an Event of Default shall have occurred and be continuing by holders of at least $66^2/_3$% of the Aggregate Outstanding Amount of Notes of the Controlling Class. However, no resignation or removal of the Trustee will become effective until the acceptance of appointment by a successor Trustee pursuant to the terms of the Indenture. If the Trustee shall resign or be removed, the Trustee shall also resign as Paying Agent, Calculation Agent, Registrar and any other capacity in which the Trustee is then acting pursuant to the Indenture.

The Collateral Administration Agreement

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

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Tax Characterization

The Issuer intends to treat the Notes as debt instruments of the Issuer for U.S. Federal and, to the extent permitted by law, state and local income and franchise tax purposes. The Indenture will provide that each holder, by accepting a Note, agrees to such treatment, to report all income (or loss) in accordance with such treatment and not to take any action inconsistent with such treatment, except as otherwise required by any relevant taxing authority.

Governing Law

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

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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 Investor Application Forms 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 Wells Fargo Bank, National Association, 9062 Old Annapolis Road, Columbia, Maryland 21045, Attention: Corporate Trust Services–Kleros Preferred Funding III.

Status

The Issuer is authorized to issue 8,600 Preference Shares, par value U.S.$0.01 per share, at an issue price of U.S.$1,000 per share, having a liquidation preference of U.S.$1,000 per share (the "Liquidation Preference"). 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.

Distributions

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

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

Distributions on any Preference Share will be made to the person in whose name such Preference Share is registered fifteen days prior to the applicable Distribution Date (the "Record Date"). Payments will be made by wire transfer in immediately available funds to a Dollar account maintained by the holder thereof appearing in the Preference Share Register in accordance with wire transfer instructions received from such holder by the Preference Share Paying Agent on or before the Record Date or, if no wire transfer instructions are received by the Preference Share Paying Agent, by a Dollar check drawn on a

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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 any of the Overcollateralization Tests is not satisfied on the Determination Date related to any Distribution Date, Interest Proceeds (and then Principal Proceeds, if needed) that would otherwise be distributed to Preference Shareholders on the related Distribution Date (subject to the payment of certain other amounts prior thereto) will be used instead to repay principal of the Notes in accordance with the Priority of Payments. In addition, if a Rating Confirmation Failure occurs, funds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders (subject to the payment of certain other amounts prior thereto) will be used to redeem the Notes to the extent necessary (after the application of Uninvested Proceeds for such purpose) to obtain a Rating Confirmation from each Rating Agency. See "Description of the Notes—Priority of Payments—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.

The Issuer Charter

The following summary describes certain provisions of the Issuer Charter, the Indenture, the Preference Share Paying Agency Agreement and the Collateral Management Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Issuer Charter, the Indenture, the Preference Share Paying Agency Agreement and the Collateral Management Agreement.

Notices

Notices to the Preference Shareholders will be given by first class mail, postage prepaid, to the registered holders of the Preference Shares at their address appearing in the Preference Share Register. For so long as the Preference Shares are listed on the Channel Islands Stock Exchange, and so long as the rules of such Exchange so require, notices to the holders of the Preference Shares shall also be given by delivery to the Channel Islands Stock Exchange.

Voting Rights

Set forth below is a summary of certain matters with respect to which Preference Shareholders are entitled to vote. This summary is not meant to be an exhaustive list, and, subject to covenants made by each Preference Shareholder in the Investor Application Forms for Preference Shares (in the case of Original Purchasers of the Preference Shares) and in the transfer certificates (in the case of transferees of

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

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

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

The Indenture: The Issuer is not permitted to enter into certain supplemental indentures without the consent of a specified percentage of the Preference Shareholders under the circumstances described under "Description of the Notes—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 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 Preference Shareholders' determination to dissolve the Issuer, (ii) at any time after the sale or other disposition of all of the Issuer's assets, upon the Preference Shareholders' determination to dissolve the Issuer, (iii) at any time after the Notes are paid in full, upon the Preference Shareholders' determination to dissolve the Issuer and (iv) on the date of a winding up pursuant to the provisions of or as contemplated by The Companies Law (2004 Revision) of the Cayman Islands as then in effect. The directors of the Issuer currently intend, in the event that the Preference Shares are not redeemed at the option of a Majority-in-Interest of Preference Shareholders following the repayment in full of the Notes, to liquidate all of the Issuer's remaining investments in an orderly manner and distribute the proceeds of such liquidation to the Preference Shareholders. However, there can be no assurance that the Notes will be repaid before their Stated Maturity. See "Maturity, Prepayment and Yield Considerations" and "Risk Factors—Average Life of the Notes and Prepayment Considerations".

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

(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;

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(3) *third*, to establish reserves adequate to meet any and all contingent, unliquidated liabilities or obligations of the Issuer; *provided* that at the expiration of a period not exceeding three years after the final liquidation distribution, the balance of such reserves remaining after the payment of such contingencies or liabilities shall be distributed in the manner described herein;

(4) *fourth*, to pay the Preference Shareholders a sum equal to the aggregate liquidation preferences of the Preference Shares;

(5) *fifth*, to pay the holders of the ordinary shares the nominal amount paid up thereon and the sum of U.S.$1.00 per ordinary share; and

(6) *sixth*, to pay to the Preference Shareholders the balance remaining.

Consolidation, Merger or Transfer of Assets

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

Petitions for Bankruptcy

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 petition in bankruptcy against the Issuer before one year and one day have elapsed since the payment in full of the Notes or, if longer, the applicable preference period then in effect.

Governing Law

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

Certain Definitions

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

"IRR" means, with respect to each Distribution Date, the rate of return on the Preference Shares that would result in a net present value of zero, assuming (a) the original aggregate liquidation preference of the Preference Shares is an initial negative cash flow on the Closing Date and all distributions, if any, to the Preference Share Paying Agent (for distribution to the Preference Shareholders) on such Distribution Date and each preceding Distribution Date are positive cash flows, (b) the initial date for the calculation is the Closing Date, (c) the number of days to each subsequent Distribution Date from the Closing Date is calculated on the basis of a 360-day year consisting of twelve 30-day months and (d) the calculation is made on an annual compounding basis.

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

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"Preference Share Redemption Date Amount" means the amount required (after taking into account any dividends or other distributions made or to be made to the holders of the Preference Shares on the applicable Distribution Date and all prior Distribution Dates in accordance with the Priority of Payments) to ensure that, after distribution of such amount to the Preference Share Paying Agent for distribution to the Preference Shareholders, the IRR on the Preference Shares is not less than (i) 7% on the initial aggregate liquidation preference of the Preference Shares for the period from the Closing Date to such Distribution Date, with respect to a Distribution Date on or after the Distribution Date in October 2014 and prior to the Distribution Date in October 2016, (ii) 4% on the initial aggregate liquidation preference of the Preference Shares for the period from the Closing Date to such Distribution Date, with respect to any Distribution Date on or after the Distribution Date in October 2016 and prior to the Distribution Date in October 2018 and (iii) 2% on the initial aggregate liquidation preference of the Preference Shares for the period from the Closing Date to such Distribution Date, with respect to any Distribution Date on or after the Distribution Date in October 2018. For the avoidance of doubt, the calculation of the IRR will take into account all of the distributions made on the Preference Shares from the Closing Date to (and including) the Redemption Date, regardless of when a Preference Shareholder first purchased its Preference Shares.

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

"Special-Majority-in-Interest of Preference Shareholders" means at any time, Preference Shareholders whose aggregate Voting Percentages at such time exceed $66^2/_3$% of all Preference Shareholders' Voting Percentages at such time.

"Voting Factor" means at any time, a number obtained by (a) calculating the percentage obtained by 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

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percentage equal to the number of Preference Shares held by such Preference Shareholder at such time multiplied by the Voting Factor at such time divided by the aggregate number of Preference Shares held by all Preference Shareholders at such time.

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

Form, Registration and Transfer

General

(i) Preference Shares that are sold or transferred outside the United States to persons that are not U.S. Persons ("Regulation S Preference Shares") will be represented by either (i) one or more permanent global preference share certificates (each, a "Regulation S Global Preference Share") or (ii) in the limited circumstances described herein, preference share certificates in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof ("Regulation S Definitive Preference Shares"). By acquisition of a Regulation S Preference Share, any purchaser thereof will be required to represent and warrant in a transfer certificate (in the case of the Regulation S Definitive Preference Shares) or be deemed to represent and warrant (in the case of the Regulation S Global Preference Shares) that (a) it is not a U.S. Person and is purchasing such Regulation S Preference Share for its own account and not for the account or benefit of a U.S. Person and (b) if in the future it decides to transfer such Regulation S Preference Share, it will transfer such Regulation S Preference Share to a person that is not a U.S. Person only in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Definitive Preference Share. Preference Shares that are sold or transferred to a U.S. Person or in the United States in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 4(2) thereof will be represented by certificates ("Restricted Definitive Preference Shares"; the Restricted Definitive Preference Shares and Regulation S Definitive Preference Shares are collectively referred to as the "Definitive Preference Shares") in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof. Any purchaser of Preference Shares issued on the Closing Date, with the consent of the Initial Purchaser, in a number less than the minimum trading lot will be required to hold Regulation S Definitive Preference Shares. Interests in a Regulation S Preference Share will be exchangeable or transferable, as the case may be, for a Regulation S Definitive Preference Share if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Regulation S Definitive Preference Share or (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depositary is not appointed by the Issuer within 90 days.

(ii) The Preference Shares will be subject to the restrictions on transfer set forth in this Offering Circular under "Transfer Restrictions". Preference Shares may not be transferred if, after giving effect to such transfer, the transferee (and, if the transferor retains any Preference Shares, the transferor) would own less than 250 Preference Shares.

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

(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

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Register"). Written instruments of transfer are available at the office of the Issuer and the office of the Preference Share Paying Agent.

(vi) The Issuer is authorized to issue 8,600 Preference Shares, par value U.S.$0.01 per share.

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

Transfer and Exchange

(i) Transfers by a holder of a beneficial interest in a Regulation S Global Preference Share or a Regulation S Definitive Preference Share to a transferee who takes delivery of a Restricted Definitive Preference Share will be made (a) in the case of a transfer by a holder of a beneficial interest in a Regulation S Global Preference Share, only in accordance with the Applicable Procedures and (b) in either case, upon receipt by the Preference Share Registrar of written certifications from each of the transferor and the transferee of such beneficial interest in the form provided in the Preference Share Paying Agency Agreement to the effect that, among other things, such transfer is being made (a) to a transferee that (A) is both (1) a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (2) a Qualified Purchaser, (B) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) and (C) is not a Benefit Plan Investor or a Controlling Person; and (b) in accordance with all other applicable securities laws of any relevant jurisdiction.

The holder of a beneficial interest in a Regulation S Global Preference Share may transfer such interest to a transferee who takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Preference Share; *provided* that any such transfer may only be made to a person that is not a U.S. Person and that is not acquiring such beneficial interest for the account or benefit of a U.S. Person and any such transfer may only be effected in an offshore transaction in accordance with Regulation S and only in accordance with the Applicable Procedures. Any such transferee must be able to make the representations set forth under "Transfer Restrictions", including the representation that it is not a Benefit Plan Investor or a Controlling Person. Each Original Purchaser (and any transferee) acquiring an interest in a Regulation S Global Preference Share will be required to execute and deliver to the Issuer and the Preference Share Paying Agent a letter substantially in the form attached as Exhibit A hereto and as an exhibit to the Preference Share Paying Agency Agreement which includes a representation to the effect that it will not transfer such interest except in compliance with the transfer restrictions set forth in the Preference Share Paying Agency Agreement (including the requirement that any subsequent transferee execute and deliver to the Issuer and the Preference Share Paying Agent a letter as a condition to any subsequent transfer and that such transferee shall not be a Benefit Plan Investor or a Controlling Person).

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

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Definitive Preference Shares may be exchanged or transferred in whole or in part in numbers not less that the applicable minimum trading lot by surrendering such Definitive Preference Shares at the office of the Preference Share Registrar or the office designated by the Preference Share Transfer Agent with a written instrument of transfer and written certification from each of the transferor and the transferee in the form provided in the Preference Share Paying Agency Agreement to the effect that, among other things, the transferee (i)(x) is a Qualified Institutional Buyer or (y) is entitled to take delivery of such Restricted Definitive Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (b) is a Qualified Purchaser, (c) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) and (d) is not a Benefit Plan Investor or a Controlling Person. With respect to any transfer of a portion of Definitive Preference Shares, the transferor will be entitled to receive new Restricted Definitive Preference Shares or Regulation S Definitive Preference Shares, as the case may be, representing the liquidation amount retained by the transferor after giving effect to such transfer. Definitive Preference Shares issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the Preference Share Transfer Agent.

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

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

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

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

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Qualified Institutional Buyer or (y) entitled to take delivery of such Restricted Definitive Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (B) a Qualified Purchaser and (C) not a Benefit Plan Investor or a Controlling Person or (2) in the case of a person holding its interest through a Regulation S Global Preference Share or a person holding Regulation S Definitive Preference Shares, neither (A) a U.S. Person nor (B) a Benefit Plan Investor or a Controlling Person, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner or holder fails to effect the transfer required within such 30-day period, (I) upon direction from the Collateral Manager or the Issuer, the Preference Share Registrar (on behalf of and at the expense of the Issuer) shall cause such beneficial owner's or holder's interest in such Preference Shares to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Preference Share Paying Agent and approved by the Issuer in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person that certifies to the Preference Share Paying Agent, Preference Share Registrar, the Issuer and the Collateral Manager, in connection with such transfer, that such person is (A) in the case of Restricted Definitive Preference Shares (x) (i) a Qualified Institutional Buyer or (ii) entitled to take delivery of such Restricted Definitive Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (y) a Qualified Purchaser, (B) in the case of Regulation S Global Preference Shares or Regulation S Definitive Preference Shares, not a U.S. Person and (C) in all cases, not a Benefit Plan Investor or a Controlling Person and (II) pending such transfer, no payments will be made on such Preference Shares from the date notice of the sale requirement is sent to the date on which such Preference Shares are sold and such Preference Shares shall be deemed not to be outstanding for the purposes of any vote, consent or direction of the Preference Shareholders and shall not be taken into account for the purposes of calculating any quorum or majority requirements relating thereto. The reference in the first sentence of this paragraph to a change in a Benefit Plan Investor's status or a Controlling Person's status shall be deemed to include, in the case of a Preference Shareholder that is an insurance company investing through its general account, any increase in the percentage of such general account consisting of plan assets above the percentage specified in the questionnaire submitted with the relevant Investor Application Form, purchaser letter in the form of Exhibit A or a transfer certificate in the form attached to the Preference Share Paying Agency Agreement.

(iv) No service charge will be made for exchange or registration of transfer of any Preference Share but the Preference Share Paying Agent (on behalf of the Preference Share Registrar) may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith and expenses of delivery (if any) not made by regular mail.

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

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

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

Definitive Regulation S Preference Shares

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

No Gross-Up

All payments made by the Issuer under the Preference Shares 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.

Listing

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

Tax Characterization

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The Issuer intends to treat the Preference Shares as equity interests in the Issuer for U.S. Federal and, to the extent permitted by law, state and local income and franchise tax purposes. The Preference Share Paying Agency Agreement will provide that each holder, by accepting a Preference Share, agrees to such treatment, to report all income (or loss) in accordance with such treatment and not to take any action inconsistent with such treatment, except as otherwise required by any relevant taxing authority.

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DESCRIPTION OF THE COMBINATION NOTES

Combination Notes

The Issuer and Co-Issuer will issue U.S.$8,000,000 Combination Notes due 2050 (the "Combination Notes"). The Combination Notes will be issued by the Issuer and Co-Issuer pursuant to the Indenture. The Combination Notes will consist of two components: (1) a component initially consisting of U.S.$5,250,000 aggregate original principal amount of the Class C Notes allocable to, and represented by, the Combination Notes (the "Class C Note Component"); and (2) a component initially consisting of 2,750 Preference Shares (U.S.$2,750,000 aggregate original liquidation preference of the Preference Shares) allocable to, and represented by, the Combination Notes (the "Preference Share Component").

General

The aggregate principal amount of the Class C Notes included in the Class C Note Component is included in, and is not in addition to, the aggregate principal amount of the Class C Notes issued by the Co-Issuers as described elsewhere in this Offering Circular, and the aggregate liquidation preference of the Preference Shares included in the Preference Share Component is included in, and is not in addition to, the aggregate liquidation preference of the Preference Shares issued by the Issuer as described elsewhere in this Offering Circular. None of (a) the Class C Notes included in the Class C Note Component or (b) the Preference Shares included in the Preference Share Component will be separately issued.

Except as otherwise described in this section entitled "Description of the Combination Notes", the terms and conditions of the Combination Notes (including amounts due and payable thereunder) will be (a) with respect to the Class C Note Component, the terms and conditions of the Class C Notes, and (b) with respect to the Preference Share Component, the terms and conditions of the Preference Shares.

Risk Factors

An investment in the Combination Notes involves certain risks. In addition to the risks particular to Combination Notes described in the following two paragraphs, the risk of ownership of the Combination Notes will be (a) with respect to the Class C Note Component, the risks of ownership of the Class C Notes and (b) with respect to the Preference Share Component, the risks of ownership of the Preference Shares.

Transfer of Components. Components are not separately transferable. See "—Exchange of Combination Notes for Underlying Components".

Limited Liquidity. There is currently no market for the Combination Notes. Although the Initial Purchaser may from time to time make a market in the Combination Notes, the Initial Purchaser is not under any obligation to do so. In the event that the Initial Purchaser commences any market-making, the Initial Purchaser may discontinue the same at any time. There can be no assurance that a secondary market in the Combination Notes will develop, or if a secondary market does develop, that it will provide the Holders of the Combination Notes with liquidity of investment or that it will continue for the life of the Combination Notes. In addition, the Combination Notes are subject to certain transfer restrictions and can only be transferred to certain transferees as described under "—Form, Denomination, Registration and Transfer—Transfer and Exchange of Combination Notes". Consequently, an investor in the Combination Notes must be prepared to hold the Combination Notes for an indefinite period of time or until their Stated Maturity.

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Status and Security

The Combination Notes (to the extent of the Class C Note Component) are limited recourse obligations of the Issuer and Co-Issuer and represent an equity interest in the Issuer to the extent of the Preference Share Component. The holders of the Combination Notes will be entitled to receive payments only to the extent that payments are made on the Class C Notes included in the Class C Note Component and the Preference Shares included in the Preference Share Component. All of the Combination Notes are entitled to receive payments *pari passu* among themselves.

The Combination Notes will be secured solely to the extent of the Class C Note Component. The Preference Share Components will not be secured.

Interest

The Combination Notes will not bear a stated rate of interest. The Holders of Combination Notes will be entitled to receive all proceeds in respect of the Class C Note Component and the Preference Share Component, if and to the extent that funds are available for such purposes as described below under "Payments".

Redemption

The Combination Notes shall only be redeemed prior to their stated maturity when and in the same manner as the Preference Shares are redeemed in accordance with the Issuer Charter and the Preference Share Paying Agency Agreement (but shall be redeemed in part to the extent of the early redemption of the Class C Notes comprising the Class C Component in accordance with the Indenture). Any proceeds of the early redemption of the respective Components shall be paid to the Holders of the Combination Notes on the related Distribution Date in accordance with the Indenture.

The Combination Notes shall be redeemed, (1) with respect to the Class C Component, by allocation of payments in respect of the Class C Notes to such Component and (2) with respect to the Preference Share Component, by allocation of payments in respect of the Preference Shares to such Component. The Combination Notes shall be fully redeemed when the Preference Shares constituting the Preference Share Component have been fully redeemed in accordance with the Issuer Charter and the Preference Share Paying Agency Agreement.

Acts of Holders of Combination Notes

The Holders of Combination Notes will be treated as Holders of the Class C Notes, to the extent of the Class C Note Component, for purposes of any requests, demands, authorizations, directions, notices, consents, waivers or other actions under the Indenture and will be treated as Holders of the Preference Shares to the extent of the Preference Share Component for purposes of any requests, demands, authorizations, directions, notices, consents, waivers or other actions under the Preference Share Paying Agency Agreement. The Holders of the Combination Notes will be entitled to vote, or to direct the voting of, the Components of such Combination Notes.

Payments

Payments on the Combination Notes shall be payable by wire transfer in immediately available funds to a Dollar account maintained by the Combination Noteholders in accordance with wire transfer instructions received by any Paying Agent on or before the Record Date or, if no wire transfer instructions are received by a Paying Agent, by a Dollar check drawn on a bank in the United States mailed to the address of such Combination Noteholder as it appears on the Combination Note Register at the close of business on the Record Date for such payment.

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The amount on any Combination Note which is payable on a Redemption Date or in accordance with the Indenture on a Distribution Date and is punctually paid or duly provided for on such Redemption Date or Distribution Date shall be paid to the Person in whose name that Combination Note (or one or more predecessor Combination Notes) is registered at the close of business on the Record Date for such payment. All such payments that are mailed or wired and returned to the Paying Agent shall be held for payment as provided in the Indenture at the office or agency of the Issuer.

Payments to Combination Noteholders shall be made (a) in the case of payments in respect of the Class C Component, in the proportion that the Aggregate Outstanding Amount of the Class C Component of the Combination Notes registered in the name of each such Combination Noteholder on the Record Date for such payment bears to the Aggregate Outstanding Amount of the Class C Component of all Combination Notes on such Record Date and (b) in the case of payments in respect of the Preference Share Component, in the proportion that the number of Preference Shares represented by the Preference Share Component of Combination Notes registered in the name of each such Combination Noteholder on the Record Date for such payment bears to the number of Preference Shares represented by the Preference Share Component of all Combination Notes on such Record Date.

All reductions in the principal amount of a Combination Note (or one or more predecessor Combination Notes) effected by payments of installments of principal made on any Distribution Date or Redemption Date shall be binding upon all future Holders of such Combination Note and of any Combination Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof, whether or not such payment is Combination Noted on such Combination Note.

The obligations of the Issuer under the Combination Notes are limited-recourse obligations of the Issuer, payable solely to the extent that payments are made on the Class C Notes included in the Class C Component and the Preference Shares included in the Preference Share Component. The Combination Notes are secured solely to the extent to which the underlying Components comprising the Combination Notes are secured.

Each Combination Note is entitled to receive payments *pari passu* in accordance with amounts due and payable thereon. Payments in respect of the Combination Notes shall be made *pro rata*, based on the amount of such payment then due and payable.

The Issuer shall not be obligated to pay any additional amounts to the Holders of the Combination Notes as a result of deduction for, or an account of, any present or future taxes, duties, assessments or governmental charges with respect to the Combination Notes.

Cancellation

All Combination Notes that are paid in full or redeemed and surrendered for cancellation will forthwith be canceled and may not be reissued or resold.

Form, Denomination, Registration and Transfer

General

The Combination Notes will be issuable in a minimum denomination of U.S.$1,000,000 and will be offered only in such minimum denomination or an integral multiple of U.S.$1,000 in excess thereof. After issuance any Combination Note may fail to be in compliance with the minimum denomination requirement as a result of the repayment of principal thereof in accordance with the Priority of Payments.

Combination Notes issued upon transfer, exchange or replacement of other Combination Notes shall be issued in authorized denominations reflecting the original aggregate principal amount of the Combination Notes so transferred, exchanged or replaced, but shall represent only the aggregate

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outstanding amount of the Combination Notes so transferred, exchanged or replaced. If any Combination Note is divided into more than one Combination Note in accordance with the Indenture, the original principal amount of such Combination Note shall be proportionately divided among the Combination Notes delivered in exchange therefor and shall be deemed to be the original aggregate principal amount of such subsequently issued Combination Notes.

Restricted Combination Notes

The Combination Notes offered and sold in the United States pursuant to an exemption from the registration requirements of the Securities Act ("Restricted Combination Notes") shall be issued in fully Registered Form without interest coupons, substantially in the form of the certificated Combination Note attached as an exhibit to the Indenture, with such legends as may be applicable thereto, which shall be duly executed by the Issuer and the Co-Issuer and authenticated by the Trustee or the Authenticating Agent as hereinafter provided. The Restricted Combination Notes will be offered and may only be transferred in whole and not in part to (a) non-U.S. Persons in offshore transactions in reliance on Regulation S taking delivery of a Combination in the form of a Regulation S Global Combination Note or (b) in the United States to QIBs in reliance on an exemption from registration under the Securities Act provided by Rule 144A thereunder who are also Qualified Purchasers. Transfers of Restricted Combination Notes may only be effected by delivery to the Trustee and the Issuer of the required written certifications from the proposed transferee regarding compliance with applicable transfer restrictions. See "Transfer Restrictions" and " ERISA Considerations." The Class C Notes comprising the portion of the Class C Note Component and the Preference Shares comprising the portion of the Preference Share Component shall be evidenced by a Restricted Combination Note and shall not be evidenced by any separate instrument or certificate.

Subject to the restrictions on transfer set forth in the Indenture and the Combination Notes, Combination Noteholders holding Restricted Combination Notes may transfer or exchange such Combination Notes in whole but not in part (in a number equal to any authorized denomination) by surrendering such Combination Notes at the Corporate Trust Office of the Trustee or at the office of a transfer agent designated for such purpose in the Indenture, together with an executed instrument of assignment and an investor certificate substantially in the form attached to the Indenture. In exchange for any Restricted Combination Notes properly presented for transfer with all necessary accompanying documentation, the Trustee will, within five Business Days of such request if made at the Corporate Trust Office of the Trustee, or within ten Business Days if made at the office of a transfer agent designated for such purpose in the Indenture, deliver at the Corporate Trust Office of the Trustee or the office of the transfer agent as the case may be, to the transferee or send by first class mail at the risk of the transferee to such address as the transferee may request, a Restricted Combination Note, for a like number of Combination Notes as may be requested. The presentation for transfer of any Restricted Combination Note will not be valid unless made at the Corporate Trust Office of the Trustee or at the office of a transfer agent by the registered Combination Noteholder in person, or by a duly authorized attorney in fact.

Regulation S Global Combination Notes

Combination Notes sold outside the United States will be sold to persons that are not U.S. Persons in offshore transactions in accordance with Regulation S. Combination Notes offered and sold in reliance on Regulation S shall be issued in fully Registered Form without interest coupons substantially in the form of the Combination Note attached as an exhibit to the Indenture (each, a "Regulation S Global Combination Notes") with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture and such legends as may be applicable thereto, which shall be deposited with the Trustee as custodian for DTC, and registered in the name of DTC or a nominee of

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DTC, for the accounts of Euroclear and/or Clearstream, Luxembourg, duly executed by the Co-Issuers and authenticated by the Trustee or the Authenticating Agent as hereinafter provided. The aggregate principal amount of each Regulation S Global Combination Note may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for DTC or its nominee, as the case may be. By acquisition of a beneficial interest in a Regulation S Global Combination Note, any purchaser thereof will be deemed to represent that (a) it is not a U.S. Person and is purchasing such beneficial interest for its own account and not for the account or benefit of a U.S. Person and (b) if in the future it decides to transfer such beneficial interest, it will transfer such interest only to a person that is not a U.S. Person in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Combination Note. Beneficial interests in each Regulation S Global Combination 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. In addition, no beneficial owner of an interest in a Regulation S Global Combination Note will be able to exchange or transfer that interest, except in accordance with the applicable procedures of the depositary and Euroclear or Clearstream, Luxembourg (in addition to those under the Indenture), in each case to the extent applicable (the "Applicable Procedures").

The Class C Notes comprising the portion of the Class C Note Component and the Preference Shares comprising the portion of the Preference Share Component represented by any Regulation S Global Combination Notes shall be evidenced by such Regulation S Global Combination Note to which they relate and shall not be evidenced by any separate instrument or certificate.

Transfer and Exchange of Combination Notes

(i) Transfers of Combination Notes may only be made in accordance with the following:

(A) The Trustee shall cause the exchange or transfer of any beneficial interest in any Combination Note for a beneficial interest in a Restricted Combination Note upon provision to the Trustee and the Issuer of a written certification in the form proscribed by the Indenture (a ***Rule 144A Transfer Certificate***).

(B) The Trustee shall cause the exchange or transfer of any beneficial interest in any Combination Note for a beneficial interest in a Regulation S Combination Note upon provision to the Trustee and the Issuer of a written certification substantially in the form proscribed by the Indenture (a ***Regulation S Transfer Certificate***).

(ii) If, notwithstanding the applicable restrictions, the Issuer determines that any Beneficial Owner or Holder of (A) a Regulation S Combination Note (or any interest therein) is a U.S. Person or (B) a Restricted Combination Note (or any interest therein) is not a Qualified Institutional Buyer (unless such Beneficial Owner is an Accredited Investor that purchased such Restricted Combination Note (or any interest therein) directly from the Co-Issuers or the Initial Purchaser) and also a Qualified Purchaser, then the Issuer 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 Combination Note (or any interest therein) to a Person that (1) is not a U.S. Person (in the case of a Regulation S Global Combination Note) or (2) in the case of a Person holding its interest through a Restricted Combination 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 written direction from the Issuer, the

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Trustee shall, on behalf of and at the expense of the Issuer, and is hereby irrevocably authorized by such Beneficial Owner or Holder, as the case may be, to, cause its interest in such Combination 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 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 Trustee and the Issuer, 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 Combination 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 Combination Note) and (ii) pending such transfer, no further payments will be made in respect of such Combination Note (or beneficial interest therein) held by such Holder or Beneficial Owner and such Combination Note shall be deemed not to be Outstanding for the purpose of any vote or consent of the Noteholders.

(iii) Subject to the restrictions on transfer and exchange set forth in the Indenture and to any additional restrictions on transfer or exchange specified in the Combination Notes, the Combination Noteholder of any Combination Note may transfer or exchange the same in whole or in part (in a principal amount equal to the minimum authorized denomination or any larger authorized amount) by surrendering such Combination Note at the Corporate Trust Office or at the office of any Combination Note Transfer Agent, together with (x) in the case of any transfer, an executed instrument of assignment and (y) in the case of any exchange, a written request for exchange. Following a proper request for transfer or exchange, the Trustee shall (**provided** it has available in its possession an inventory of Combination Notes), within five Business Days of such request if made at such Corporate Trust Office, or within ten Business Days if made at the office of a Combination Note Transfer Agent (other than the Trustee), authenticate and make available at such Corporate Trust Office or at the office of such Combination Note Transfer Agent, as the case may be, to the transferee (in the case of transfer) or Combination Noteholder (in the case of exchange) or send by first class mail (at the risk of the transferee in the case of transfer or Combination Noteholder in the case of exchange) to such address as the transferee or Combination Noteholder, as applicable, may request, a Combination Note or Combination Notes, as the case may require, for a like aggregate principal amount and in such authorized denomination or denominations as may be requested. The presentation for transfer or exchange of any Combination Note shall not be valid unless made at the Corporate Trust Office or at the office of a Combination Note Transfer Agent by the registered Combination Noteholder in person, or by a duly authorized attorney-in-fact.

No transfer of Combination Notes will be effective, and neither the Issuer nor the Combination Note Registrar will recognize any such transfer if the transferee would not be an eligible transferee of the Class C Note Component and Preferred Share Component represented thereby.

The Combination Note Registrar will effect exchanges and transfers of Combination Notes. In addition, the Combination Note Registrar will keep in the Combination Note Register records of the ownership, exchange and transfer of the Combination Notes.

The Combination Notes will bear the applicable legends regarding the restrictions set forth herein under "Purchase and Transfer Restrictions".

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

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Issuer and, in such event, Combination Noteholders will be required to comply with such transfer restrictions.

Regulation S Global Combination Notes to Restricted Combination Notes. Transfers by a Holder of a beneficial interest in a Regulation S Global Combination Note to a transferee who takes delivery of a Restricted Combination Note will be made only in accordance with the Applicable Procedures and upon receipt by the Combination Note Registrar of written certifications from each of the transferor and the transferee of such beneficial interest in the form provided in the Indenture to the effect that, among other things, such transfer is being made:

(i) to a transferee that is both (A) a QIB, 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 (B) a Qualified Purchaser. In addition, it will be required to represent and warrant that it (A) is not a broker-dealer which owns or invests on a discretionary basis less than U.S.$25,000,000 in securities of unaffiliated issuers, (B) is not a participant-directed employee plan, such as a 401(k) plan and (C) was not formed for the purpose of investing in the Issuer; and

(ii) in accordance with all other applicable securities laws of any relevant jurisdiction.

Regulation S Global Combination Notes. The Holder of a beneficial interest in a Regulation S Global Combination Note may transfer such interest to a transferee who takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Combination Note. Any such transfer may only be effected in an offshore transaction in accordance with Regulation S and only in accordance with the Applicable Procedures. In addition, each transferee of an interest in a Regulation S Global Combination Note will be required to execute and deliver to the Issuer and the Trustee a letter in the form attached as an exhibit to the Indenture to the effect that the transferee will not transfer such interest except in compliance with the transfer restrictions set forth in the Indenture (including the requirement that any subsequent transferee execute and deliver such letter as a condition to any subsequent transfer).

Restricted Combination Notes. Transfers or exchanges by a holder of a Restricted Combination Note to a transferee who takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Combination Note will be made only upon receipt by the Issuer, the Collateral Manager and the Trustee of written certification from the transferor in the form provided in the Indenture to the effect that such transfer is being made in an offshore transaction (within the meaning of Regulation S) in accordance with Regulation S. No transfer of a Restricted Combination Note to a transferee who takes delivery thereof in the form of a beneficial interest in a Regulation S Global Combination Note may be made, and none of the Issuer, Trustee and the Paying Agents will recognize any such transfer if, after giving effect to such transfer, 25% or more, as determined under the Plan Asset Regulation of the United States Department of Labor, 29 C.F.R. §2510.3-101(f), of the Preference Shares (including the Preference Shares allocated to the Preference Share Components) would be held by Benefit Plan Investors as determined under such regulation. If such transfer is not made in an offshore transaction in accordance with Regulation S, such transfer may be made only upon receipt by the Issuer, the Collateral Manager and the Trustee of written certification from the transferee to the effect that the transferee is not a U.S. Person (within the meaning of Regulation S).

Restricted Combination Notes. Transfers by a Holder of a Restricted Combination Note to a transferee who takes delivery of a Restricted Combination Note will be made only upon receipt by the Issuer, the Collateral Manager and the Trustee of written certifications from the transferor in the form provided in the Indenture to the effect that, among other things, such transfer is being made to a person or entity whom the transferor reasonably believes is both (x) a Qualified Institutional Buyer purchasing for

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its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from Securities Act registration provided by Rule 144A and (y) a Qualified Purchaser.

Book Entry Registration of the Regulation S Global Combination Notes

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.

Subject to compliance with the transfer restrictions applicable to the Combination 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 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 Regulation S Global Combination Notes 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 Clearstream, Luxembourg or Euroclear.

Because of time zone differences, cash received by Euroclear or Clearstream, Luxembourg as a result of sales of interests in Regulation S Global Combination Notes 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.

DTC has advised the Issuer that it will take any action permitted to be taken by a Holder of Combination Notes (including, without limitation, the presentation of Combination Notes for exchange as described above) only at the direction of one or more Participants to whose account with DTC interests in the Regulation S Global Combination Notes are credited and only in respect of the aggregate outstanding principal amount of the Combination Notes as to which such Participant or Participants has or have given such direction.

DTC is a limited-purpose trust company organized under 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").

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in a Regulation S Global Combination Note among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to

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perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the Trustee will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective Participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Combination Notes for Underlying Components

Each of the Combination Notes comprise a single Class of securities issued by the Issuer. The Combination Notes represent an interest equivalent to the Class C Note Component and the Preference Share Component. None of the Class C Notes included in the Class C Note Component or the Preference Shares included in the Preference Share Component will be separately issued. The Components are not separately transferable.

However, a Holder of a Combination Note may exchange such Combination Note (in whole but not in part) for its ratable share of the Class C Notes and Preference Shares, in each case represented by the applicable Components, subject to the minimum denomination requirements with respect to the Class C Notes and the Preference Shares as described herein and in the Indenture and the Preference Share Paying Agency Agreement, as applicable. Upon an exchange of the Combination Notes, (x) a Holder of Combination Notes shall receive its ratable share, based on the portion of the total amount of Combination Notes owned by such Combination Noteholder, of (1) Class C Notes with a principal amount equal to the Class C Note Component Percentage of the aggregate outstanding principal amount of the Class C Notes and (2) Preference Shares with a liquidation preference equal to the Preference Share Component Percentage of the aggregate outstanding liquidation preference of the Preference Shares (including the Preference Shares allocated to the Preference Share Components).

A Holder of Class C Notes and/or Preference Shares will not have the right to exchange such Class C Notes and/or Preference Shares for a Combination Note.

Listing

Application will be made to the Irish Stock Exchange for the Combination Notes to be admitted to the Official List. No application will be made to list either Class of Combination Notes on any other stock exchange. The issuance and settlement of the Combination Notes on the Closing Date are not conditional on the listing of the Combination Notes on the Irish Stock Exchange.

Use of Proceeds

The net proceeds of the issuance of the Combination Notes will be used to purchase U.S.$5,250,000 aggregate principal amount of the Class C Notes and U.S.$2,750,000 aggregate original liquidation preference of the Preference Shares.

Rating of the Combination Notes

It is a condition to issuance of the Combination Notes that the Combination Notes be rated at least "A2" by Moody's and at least "BB+" by Standard & Poor's. The rating assigned to the Combination Notes (a) addresses only the ultimate receipt of the initial Combination Note Rated Balance (as defined herein), (b) will not at any time address the timely receipt of any payments, including payments on redemption or repurchase of the Combination Notes or any other distributions thereon and (c) will be monitored by Moody's on an ongoing basis. The rating assigned to the Combination Notes by Moody's will be withdrawn after the Combination Note Rated Balance is reduced to zero. See "Ratings".

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Notices

Notices to the holders of the Combination Notes will be given by first-class mail, postage prepaid, to the registered holders of the Combination Notes at their address appearing in the Combination Note Register.

Governing Law

The Combination Notes will be shall be construed in accordance with, and each Combination Note and all matters arising out of or relating in any way whatsoever (whether in contract, tort or otherwise) to each Combination Note shall be governed by, the law of the State of New York.

Tax Characterization

The Issuer, the Trustee and each Combination Noteholder, by accepting a Combination Note, will agree to treat such Combination Note as direct ownership of the Preference Share Component and the Class C Component, in each case, for U.S. Federal and, to the extent permitted by law, state and local income and franchise tax purposes, and not to take any action inconsistent with such treatment and to report all income (or loss) in accordance with such treatment, except as otherwise required by any relevant taxing authority.

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USE OF PROCEEDS

The gross proceeds received from the issuance and sale of the Offered Securities (after giving effect to and assuming the making of all Borrowings under the Class A-1 Notes after the Closing Date), together with the Up-Front Payment to be made to the Issuer under the initial Hedge Agreement, will be approximately U.S.$2,011,000,000. The net proceeds from the issuance and sale of the Offered Securities (after giving effect to and assuming the making of all Borrowings under the Class A-1 Notes after the Closing Date), together with the Up Front Payment, are expected to be approximately U.S.$1,999,000,000, which reflects the payment from such gross proceeds of organizational and structuring fees, an upfront management fee payable to the Collateral Manager, and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Manager and the Initial Purchaser), the expenses, fees and commissions incurred in connection with the acquisition of the Collateral Debt Securities for inclusion in the Collateral on or prior to the Closing Date, the expenses of offering the Offered Securities (including fees payable to the Initial Purchaser in connection with the offering of the Offered Securities) and the initial deposits into the Expense Account and the Interest Reserve Account. Such net proceeds will be used by the Issuer to purchase a diversified portfolio of interests in (a) certain Asset-Backed Securities and (b) Synthetic Securities. On the Closing Date, the Issuer will have purchased (or entered into agreements to purchase for settlement following the Closing Date) Collateral Debt Securities having an Aggregate Principal Balance of not less than U.S.$1,800,000,000. The Issuer expects that, no later than December 8, 2006, it will have purchased Collateral Debt Securities having an Aggregate Principal Balance of approximately U.S.$2,000,000,000. Any such proceeds not invested in Collateral Debt Securities or deposited into the Expense Account or the Interest Reserve Account will be deposited by the Trustee in the Uninvested Proceeds Account and invested in Eligible Investments pending the use of such proceeds for the purchase of Collateral Debt Securities during the Ramp-Up Period, as described herein, and, in certain limited circumstances described herein, for the payment of the Notes or for distributions on the Preference Shares. See "Security for the Notes".

RATINGS OF THE OFFERED SECURITIES

It is a condition to the issuance of the Offered Securities that the Class A-1 Notes be rated "Aaa" by Moody's 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-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 "A2" by Moody's and at least "A" 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 "Ba1" 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 (a "Rating Confirmation"); provided that, if the Ramp-Up Completion Date occurs on the Closing Date (as shall be evidenced by the schedule of Collateral Debt Securities and an accountant's report delivered on the Closing Date pursuant to the Indenture), then (i) the Issuer will not request a Rating Confirmation, (ii) the initial assignment by Moody's and Standard & Poor's of their ratings to the Notes on the Closing Date shall constitute a Rating Confirmation and (iii) no further action (including any redemption of the Notes to obtain a Rating Confirmation) shall be required in connection with the Ramp-

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Up Completion Date. 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 October, 2050. The Notes will mature at their Stated Maturity unless redeemed or repaid prior thereto. However, the average lives of the Notes and the Macaulay duration of the Preference Shares may be less than the number of years until the Stated Maturity of the Notes. Assuming (a) no Collateral Debt Securities default or are sold, (b) any optional redemption of the Collateral Debt Securities occurs in accordance with their respective terms, (c) all outstanding Notes are redeemed on the Distribution Date occurring in October, 2014 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 5.3725%, (i) the average life of the Class A-1 Notes would be approximately 7.1 years from the Closing Date, (ii) the average life of the Class A-2 Notes would be approximately 7.1 years from the Closing Date, (iii) the average life of the Class B Notes would be approximately 7.1 years from the Closing Date, (iv) the average life of the Class C Notes would be approximately 7.1 years from the Closing Date, (v) the average life of the Class D Notes would be approximately 7.1 years from the Closing Date, (vi) the average life of the Class E Notes would be approximately 7.1 years from the Closing Date and (vii) the Macaulay duration of the Preference Shares would be approximately 5.4 years. Such average lives of the Notes and the Macaulay duration of the Preference Shares are presented for illustrative purposes only. The assumed identity of the portfolio purchased by the Issuer and the other assumptions used to calculate such average lives of the Notes and the Macaulay duration of the Preference Shares are necessarily arbitrary, do not necessarily reflect historical experience with respect to securities similar to the Collateral Debt Securities and do not constitute a prediction with respect to the rates or timing of receipts of Interest Proceeds or Principal Proceeds, the acquisition of Collateral Debt Securities on or prior to the last day of the Reinvestment Period, defaults, recoveries, sales, reinvestments, prepayments or optional redemptions to which the Collateral Debt Securities may be subject. Actual experience as to these matters will differ, and may differ materially, from that assumed in calculating the illustrative average lives and the Macaulay duration set forth above, and consequently the actual average lives of the Notes and the Macaulay duration of the Preference Shares will differ, and may differ materially, from those set forth above. Accordingly, prospective investors should make their own determinations of the expected weighted average lives and maturity of the Notes and the Macaulay duration of the Preference Shares and, accordingly, their own evaluation of the merits and risks of an investment in the Notes or the Preference Shares. See "Risk Factors—Projections, Forecasts and Estimates".

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

The average lives of the Notes and the Macaulay duration of the Preference Shares will be determined by the amount and frequency of principal payments, which are dependent upon any payments received at or in advance of the scheduled maturity of Collateral Debt Securities (whether through prepayment, sale, maturity, redemption, default or other liquidation or disposition). The actual average lives of the Notes and the Macaulay duration of the Preference Shares will also be affected by the financial condition of the obligors of the underlying Collateral Debt Securities and the characteristics of such obligations, including the existence and frequency of exercise of any optional or mandatory redemption or prepayment features, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries on any Defaulted Securities, and the frequency of tender or exchange offers for such Collateral Debt Securities. Any disposition of a Collateral Debt Security and

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any reinvestment in a new Collateral Debt Security may change the composition and characteristics of the Collateral Debt Securities and the rate of payment thereon, and, accordingly, may affect the actual average lives of the Notes and the Macaulay duration of the Preference Shares. The rate of future defaults and the amount and timing of any cash realization from Defaulted Securities also will affect the average lives of the Notes and the Macaulay duration of the Preference Shares.

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THE CO-ISSUERS

General

The Issuer, a special purpose vehicle, was incorporated as an exempted company with limited liability and registered on September 7, 2006 in the Cayman Islands pursuant to the Issuer Charter, has a registered number of WK-173623 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, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands. The telephone number is (345) 945-3727. The Issuer has no prior operating experience and the Issuer will not have any substantial assets other than the Collateral pledged to secure the Notes, the Issuer's obligations under the Collateral Management Agreement, the Hedge Agreements and the Issuer's obligations to the Trustee. The entire authorized share capital of the Issuer will consist of (a) 1,000 ordinary shares, par value U.S.$1.00 per share (which will be held in trust for charitable purposes by Walkers SPV Limited in the Cayman Islands (in such capacity, the "Share Trustee") under the terms of a declaration of trust) and (b) 8,600 Preference Shares, par value U.S.$0.01 per share.

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

The Co-Issuer, a special purpose vehicle formed solely for the purpose of co-issuing the Notes, was organized on September 22, 2006 under the laws of the State of Delaware and its registered office is c/o Corporation Service Company, 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle, Delaware 19808. 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 of limited liability company interests owned by the Issuer) and will not pledge any assets to secure the Notes. The Co-Issuer will not have any interest in the Collateral Debt Securities or other assets held by the Issuer and will have no claim against the Issuer with respect to the Collateral Debt Securities or otherwise.

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

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

The Administrator's activities will be subject to the overview of the board of directors of the Issuer. The directors of the Issuer are David Egglishaw, Derrie Boggess and John Cullinane, each of whom is a director or officer of the Administrator and each of whose offices are at Walkers SPV Limited, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands, telephone number (345)

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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, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands.

Capitalization and Indebtedness of the Issuer

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

Class A-1 Notes	U.S.$1,800,000,000
Class A-2 Notes	90,000,000
Class B Notes	54,000,000
Class C Notes	9,800,000
Class D Notes	25,800,000
Class E Notes	6,000,000
Total Debt	1,985,600,000
Ordinary Shares	1,000
Preference Shares	*8,600,000
Total Equity	8,601,000
Total Capitalization	U.S.$1,994,201,000

* Represents the aggregate liquidation preference of the Preference Shares.

As of the Closing Date and after giving effect to the issuance of the Preference Shares, the authorized and issued share capital of the Issuer will be 1,000 ordinary shares, par value U.S.$1.00 per share and 8,600 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share.

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

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

Business

Article 3 of the Issuer Charter provides that the activities of the Issuer are limited to (i) the issuance of the Notes, the Preference Shares and its ordinary shares, (ii) the acquisition, disposition of, and investment in, Collateral Debt Securities, Equity Securities (to a limited extent) and Eligible Investments, (iii) the entering into, and the performance of its obligations under the Indenture, the Notes, the Purchase Agreement, the Account Control Agreement, the Preference Share Paying Agency Agreement, the Collateral Management Agreement, any Credit Derivative Transactions, 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, (v) the ownership and

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management of the Co-Issuer and (vi) certain activities conducted in connection with the payment of amounts in respect of the Offered Securities, the management of the Collateral and other incidental activities.

The Issuer has no employees and no subsidiaries other than the Co-Issuer. The Indenture will restrict the Issuer from taking any action that would constitute an abuse of its control of the Co-Issuer. Section 2 of the Co-Issuer's Limited Liability Company Agreement states that the Co-Issuer will not undertake any business other than the co-issuance of the Notes.

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SECURITY FOR THE NOTES

General

The Collateral securing the Notes (together with the Issuer's obligations to any Hedge Counterparty under any Hedge Agreement, to certain of the Synthetic Security Counterparties under the Synthetic Securities, to the Collateral Manager under the Collateral Management Agreement and to the Trustee under the Indenture) will consist of: (a) the Custodial Account, the Collateral Debt Securities and the Equity Securities (if any), (b) the Interest Collection Account, the Uninvested Proceeds Account, the Principal Collection Account, the Payment Account, the Expense Account, the Interest Reserve Account, each Synthetic Security Counterparty Account (subject to the prior rights of the related Synthetic Security Counterparty), each Synthetic Security Issuer Account (subject to the prior rights of the related Synthetic Security Counterparty), the Hedge Counterparty Collateral Account, all funds and other property standing to the credit of each such account, Eligible Investments purchased with funds standing to the credit of each such account and all income from the investment of funds therein, (c) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement 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 (collectively, the "Collateral"); *provided* that the rights of any Synthetic Security Counterparty as a secured party will be limited solely to its rights in respect of any Synthetic Security Counterparty Account or Synthetic Security Issuer Account established with respect to the Synthetic Security to which it is a party.

Collateral Debt Securities

On the Closing Date, the Issuer will have purchased (or entered into agreements to purchase for settlement following the Closing Date) Collateral Debt Securities having an Aggregate Principal Balance (together with certain other amounts) of not less than U.S.$1,800,000,000. Any Synthetic Security Collateral transferred to the Custodial Account upon termination of the related Synthetic Security also will be treated as Collateral Debt Securities. When the Issuer enters into or purchases a Synthetic Security, the Eligibility Criteria will generally be applicable to the Asset-Backed Security that is the Reference Obligation of the Synthetic Security, rather than to any Asset-Backed Securities purchased as Synthetic Security Collateral.

During the Reinvestment Period, the Issuer may invest Uninvested Proceeds and Principal Proceeds in Collateral Debt Securities. A "Collateral Debt Security" means (i) any CDO Obligation, (ii) any Other ABS, (iii) any Synthetic Security each Reference Obligation of which, and each Deliverable Obligation under which, is (a) a CDO Obligation or Other ABS that would qualify to be included as a Collateral Debt Security hereunder if purchased directly by the Issuer or (b) a specified pool of financial assets, either static or revolving (the composition of which cannot vary as a result of a decision by the Collateral Manager, the Synthetic Security Counterparty or Synthetic Security Issuer, as applicable, or their respective affiliates), that by their terms convert into cash within a finite time period, in each case in respect of which the Issuer has obtained a Synthetic Security and which, if purchased by the Issuer, would satisfy paragraphs (6), (7), (8), (9) and (10) of the Eligibility Criteria and which is a Specified Type, or (iv) any Deliverable Obligation which is a CDO Obligation or Other ABS that would qualify to be included as a Collateral Debt Security hereunder if purchased directly by the Issuer; *provided* that Collateral Debt Securities will exclude Prohibited Securities.

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

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

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

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

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

"Cap Corridor Security" means a floating rate security, backed by fixed rate collateral, that uses amortizing notional balance interest rate caps to increase the available funds cap applied to that security above the net weighted average coupon on the underlying collateral.

"Car Rental Receivable Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from leases and subleases of vehicles to car rental systems (such as Hertz, Avis, National, Dollar, Budget, *etc.*) and

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their franchisees, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the subleases are obligations of numerous franchisees and accordingly represent a very diversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee or third party of the underlying vehicle; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

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

"Chassis Leasing Securities" means Asset-Backed Securities (other than Aircraft Lease Securities and Restaurant and Food Services Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from leases and subleases of chassis (other than automobiles) to commercial and industrial customers, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying chassis; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the chassis for their stated residual value, subject to payments at the end of lease term for excess usage.

"Container Leasing Securities" means Asset-Backed Securities (other than Aircraft Lease Securities and Restaurant and Food Services Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from leases and subleases of containers to commercial and industrial customers, generally having the following characteristics: (1) the leases or subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such leases or subleases is primarily determined by a contractual payment schedule, with early termination of such leases or subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying containers; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the containers for their stated residual value, subject to payments at the end of lease term for excess usage.

"Corporate CDO Security" means any CDO Obligation that entitles the holder 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 CDO Obligations) on the market value of, credit exposure to, or cash flow from, a portfolio of securities or other obligations with respect to which the aggregate principal balance of corporate debt obligations, other Corporate CDO Securities, or any combination of the foregoing (achieved either via cash or synthetically), permitted to be included therein under the terms thereof is greater than 10% of the aggregate principal balance of such portfolio.

"Deliverable Obligation" means, with respect to a Synthetic Security, a debt obligation that is to be delivered to the Issuer upon the occurrence of a "credit event" under such Synthetic Security (or, in

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the case of a Credit Linked Security, the debt obligation that is used to determine the amount of principal payable under such Credit Linked Security).

"Equipment Leasing Security" means any Asset-Backed Security (other than an Aerospace and Defense Security, Healthcare Security, Restaurant and Food Services Security, Small Business Loan Security and Oil and Gas Security) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from loans, leases and subleases of equipment (other than automobiles, trucks, buses and planes) to commercial and industrial customers, generally having the following characteristics: (1) the loans, leases and subleases have varying contractual maturities; (2) the loans, leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such loans, leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying equipment; and (4) in the case of leases or subleases, such leases or subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of lease term for excess usage.

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

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

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

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

"Hybrid Securities" means any Collateral Debt Securities (including, without limitation, any Asset-Backed Securities the payments on which depend on the cash flow from adjustable-rate mortgages) that, pursuant to their Underlying Instruments, pass through to the holders thereof all interest proceeds received in respect of the underlying collateral with respect to such Collateral Debt Securities, which underlying collateral may consist of assets that bear interest at a fixed rate for a limited period of time (generally greater than 12 months at the time of issuance of the security on a weighted average basis),

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after which such assets bear interest based upon a floating rate index for Dollar-denominated obligations commonly used as a reference rate in the United States or the United Kingdom.

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

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

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

"Lottery Receivable Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) upon an arrangement which compensates a winner of a state lottery with one lump sum payment in exchange for a pledge of the lottery payments that individual would have received over a future period of time. Therefore, Lottery Receivable Securities are backed by a diversified pool of payments received from various state lottery commissions in exchange for a lump sum payment to a bona fide winner of a given state lottery.

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

"Market Value CDO Security" means a CDO Obligation whose overcollateralization is measured by reference to the market value of the Underlying Portfolio securing such CDO Obligation.

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

"NIM Securities" means Asset-Backed Securities that are rated by Moody's (as to principal balance and a stated coupon) and have a Standard & Poor's Rating and that entitle the holders thereof to receive payments that depend (except for the rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from interest spreads from mortgage securitizations.

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

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

"Prohibited Security" means any security (including the Reference Obligation of any Synthetic Security) that is a Aerospace and Defense Security, Manufactured Housing Security, Aircraft Lease Security, Cap Corridor Security, Corporate CDO Security (other than a Trust Preferred CDO Security, High Yield CDO Security or Investment Grade CDO Security), Corporate Debt Security, Equipment Leasing Security, Guaranteed Asset-Backed Security, Monoline Guaranteed Security, Time Share Security, Car Rental Receivable Security, Franchise Security, Healthcare Security, Market Value CDO Security, Mutual Fund Fees Security, NIM Security, Oil and Gas Security, Principal Only Security, Project Finance Security, Recreational Vehicle Security, Restaurant and Food Services Security, Shipping

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Security, Structured Settlement Security, Tax Lien Security, Chassis Leasing Security, Container Leasing Security, Lottery Receivable Security or Tobacco Litigation Security; *provided however*, that no security listed on Schedule A to the Indenture as of the Closing Date shall be treated as a Prohibited Security.

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

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

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

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and the creditworthiness of such franchise operators is the primary factor in any decision to invest in these securities.

"Semi-Annual Pay Collateral Debt Security" means any Collateral Debt Security that provides for periodic payments of interest in Cash less frequently than quarterly.

"Shipping Securities" means Asset-Backed Securities that entitle 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 cashflows from ship financing and shipping industry related loans.

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

"Synthetic ABS CDO Securities" means any Asset-Backed Security that entitles 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 Asset-Backed Securities) on the market value of and cash flow from underlying assets of which greater than 25% of the aggregate principal balance (or notional balance) consists of one or more credit default swaps that reference in the aggregate a portfolio of Reference Obligations (based upon the aggregate notional amount or "Floating Rate Payer Calculation Amount" of such credit default swap as such term is used in the underlying credit default swap); provided, that, (i) the characteristics of such portfolio of Reference Obligations including, without limitation, its portfolio characteristics, investment and reinvestment criteria, and credit profile (e.g., probability of default, recovery upon default and expected loss characteristics) shall be those normally associated with the current market practice for CDO Obligations; and (ii) the issuer secures the issuer's obligations under such credit default swap(s) by holding eligible investments the characteristics of which are substantially similar to (or more conservative than) the investments described in the definition of "Eligible Investments" including the type, quality and tenor of such investments or other investments permitted by the related indenture or other similar document of the issuer that are market standard for Synthetic ABS CDO Securities.

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

"Time Share Securities" means Asset-Backed Securities (other than Residential A Mortgage Securities, Residential B/C Mortgage Securities and Home Equity Loan Securities) that entitle the holders thereof to receive payments that depend primarily on the cash flow from residential mortgage loans (secured on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate the proceeds of which were used to purchase fee simple interests in timeshare

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estates in units in a condominium, generally having the following characteristics: (1) the mortgage loans have standardized payment terms and require minimum monthly payments; (2) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

"Tobacco Litigation Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from lawyer fee awards and state awards as a result of the settlement of litigation between the states and certain tobacco companies.

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

Ramp-Up Period

During the Ramp-Up Period, the Issuer will use its commercially reasonable efforts to acquire the remainder of the initial portfolio of Collateral Debt Securities. The Issuer will use its commercially reasonable efforts to purchase (or enter into commitments to purchase) Collateral Debt Securities which, together with certain other amounts specified below, will have an Aggregate Principal Balance equal to at least U.S.$2,000,000,000 on the Ramp-Up Completion Date. In addition, during the Ramp-Up Period, the Collateral Manager, on behalf of the Issuer, may direct the Trustee to apply Principal Proceeds to purchase Collateral Debt Securities designated by the Collateral Manager for inclusion in the Collateral.

The "Ramp-Up Completion Date" is the date that is the earlier of (a) December 8, 2006 and (b) the first date on which the sum of the Aggregate Principal Balance of the Collateral Debt Securities which the Issuer has purchased or committed to purchase plus the Aggregate Principal Balance of all Eligible Investments purchased with Principal Proceeds on deposit in the Principal Collection Account is at least equal to U.S.$2,000,000,000 (in each case, assuming for these purposes (i) settlement in accordance with customary settlement procedures in the relevant markets on the Ramp-Up Completion Date of all agreements entered into by the Issuer to acquire Collateral Debt Securities scheduled to settle on or following the Ramp-Up Completion Date and (ii) that each such Collateral Debt Security is a Pledged Collateral Debt Security.

The Issuer will notify each Rating Agency in writing (a "Ramp-Up Notice") of the occurrence of the Ramp-Up Completion Date within seven Business Days after the Ramp-Up Completion Date occurs. The Issuer will request that each Rating Agency confirm to the Issuer that it has not reduced or withdrawn the rating assigned by it on the Closing Date to any Class of Notes (a "Rating Confirmation"); provided that, if the Ramp-Up Completion Date occurs on the Closing Date (as shall be evidenced by the schedule of Collateral Debt Securities and an accountant's report delivered on the Closing Date pursuant to the Indenture), then the initial assignment by Moody's and Standard & Poor's of their ratings to the Notes on the Closing Date shall constitute a Rating Confirmation and no further action shall be required in

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connection with the Ramp-Up Completion Date. In the Ramp-Up Notice, the Issuer is required to certify to the Trustee and each Rating Agency that the Overcollateralization Tests and the Collateral Quality Tests have been satisfied. If the Issuer is unable to obtain a Rating Confirmation from each Rating Agency prior to the first Determination Date that is at least 30 Business Days following receipt by such Rating Agency of such Ramp-Up Notice (a "Rating Confirmation Failure"), on the first Distribution Date following such Rating Confirmation Failure, the Issuer will be required to apply Uninvested Proceeds (which are not required to complete purchases of Collateral Debt Securities), and then Interest Proceeds and Principal Proceeds, to pay, in part, the principal amount of the Notes in direct order of seniority to the extent required to obtain the Rating Confirmation.

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

After the Ramp-Up Period, the Issuer will not invest Uninvested Proceeds or reinvest Principal Proceeds, except to complete purchases which the Issuer committed to make during the Ramp-Up Period. Principal Proceeds received after the Ramp-Up Period may not be reinvested.

Reinvestment Period

During the Reinvestment Period, Principal Proceeds and Uninvested Proceeds may be applied by the Collateral Manager on any Business Day to purchase Collateral Debt Securities, in each case, subject to compliance with the Eligibility Criteria. In addition, during the Reinvestment Period, Principal Proceeds that would otherwise be applied on a Distribution Date pursuant to the Priority of Payments, after the payment of all payments required to be made prior to clause (18) in the Principal Proceeds Waterfall, may be deposited in the Collection Account, to remain available for application to the purchase of substitute Collateral Debt Securities (subject to satisfaction of the Eligibility Criteria) by not later than the last day of the Due Period relating to the Distribution Date immediately following such Distribution Date. See "Eligibility Criteria" below. As a result, except with respect to a payment of a Deferred Interest Amount or in connection with a payment resulting from a failure to satisfy an Overcollateralization Test, the Issuer is not expected to make any principal payments on the Notes from Principal Proceeds during the Reinvestment Period unless the Collateral Manager does not find sufficient reinvestment opportunities described under "—Collateral Debt Securities" that are eligible for investment in accordance with the applicable Eligibility Criteria described below.

The Reinvestment Period is scheduled to end on the Distribution Date in October, 2011, but may be terminated earlier on (i) the date on which the Collateral Manager notifies the Trustee of its election to make no further investments in substitute Collateral Debt Securities, (ii) the date on which the Notes are redeemed in a Tax Redemption as described under "Description of the Notes—Optional Redemption and Tax Redemption" or (iii) the occurrence of an Event of Default and an election by the Controlling Class to terminate the Reinvestment Period.

After the Reinvestment Period ends, no Collateral Debt Security may be acquired by the Issuer unless it was the subject of a commitment entered into by the Issuer prior to the end of the Reinvestment Period.

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

Eligibility Criteria

Uninvested Proceeds and Principal Proceeds may be invested in Collateral Debt Securities during the Reinvestment Period. Immediately after giving effect to each such commitment by the Issuer to invest Sale Proceeds, Principal Proceeds or Uninvested Proceeds during the Reinvestment Period in a Collateral Debt Security (and to any other investments in, or sales of, Collateral Debt Securities which the Issuer has on or prior to such date committed to make), each of the following criteria (the "Eligibility Criteria") must be satisfied with respect to such Collateral Debt Security except as specified below:

Assignable

(1) the Underlying Instrument pursuant to which such security was issued permits the Issuer to purchase it and pledge it to the Trustee and such security is a type subject to Article 8 or Article 9 of the UCC;

Jurisdiction of obligor/issuer

(2) the obligor on or issuer of such security (x) is organized or incorporated under the laws of the United States or a State thereof or in a Special Purpose Vehicle Jurisdiction or (y) is a Qualifying Foreign Obligor; *provided* that (A) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are issued by Qualifying Foreign Obligors organized or incorporated in the United Kingdom does not exceed 10% of the Net Outstanding Portfolio Collateral Balance, (B) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are issued by Qualifying Foreign Obligors does not 25% of the Net Outstanding Portfolio Collateral Balance and (C) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are issued by Qualifying Foreign Obligors organized or incorporated 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; No Interest Only Securities

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

Rating

(5) such security (including the Reference Obligation of any Synthetic Security) (A) has a Moody's Rating and a Standard & Poor's Rating, (B) if publicly rated by Moody's or Standard & Poor's, the lower of such ratings is at least "Baa1" or "BBB+", as applicable; *provided* that (i) the Moody's Rating thereof is not lower than "Baa3", (ii) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that have a public rating of below "Aa3" by Moody's (if publicly rated by Moody's) or below "AA-" from Standard & Poor's (if publicly rated by Standard & Poor's) does not exceed 40% of the Net Outstanding Portfolio Collateral Balance, and (iii) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that have a public rating of below "A3" by Moody's (if publicly rated by Moody's) or below "A-" from

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Standard & Poor's (if publicly rated by Standard & Poor's) does not exceed 5% of the Net Outstanding Portfolio Collateral Balance and (C) if publicly rated by Standard & Poor's, such rating does not contain the subscript "r", "t", "p", "pi" or "q" and (D) so long as there is a Controlling Beneficiary, if such security is publicly rated by Moody's or Standard & Poor's below "A3" or "A-", respectively, then such security is an ABS Type Residential Security or a CMBS Security;

Registered form

(6) such security is in Registered form; and *provided further* that a Synthetic Security or a Reference Obligation need not be in such Registered form unless, in either case, failure to be in such Registered form would cause such security to be subject to withholding tax or be subject to the loss disallowance rule of the Code;

No withholding

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

Does not subject Issuer to tax on a net income basis

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

Does not subject Issuer to Investment Company Act restrictions

(9) the acquisition (including the manner of acquisition), ownership, enforcement and disposition of such security will not cause the Issuer or the pool of Collateral to become an investment company required to be registered under the Investment Company Act;

ERISA

(10) such security is not a security that, pursuant to 29 C.F.R. Section 2510.3-101, (x) would be treated as an equity interest in an entity and (y) if held by an employee benefit plan subject to ERISA, would cause such employee benefit plan to be treated as owning an undivided interest in each of the underlying assets of such entity for purposes of ERISA;

No Defaulted Securities, Credit Risk Securities, Equity Securities or Written Down Securities

(11) such security is not a Defaulted Security, a Deferred Interest PIK, a Credit Risk Security, an Equity Security or a Written Down Security;

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Purchase price	(12) other than any Defeased Synthetic Security, the purchase price of such security is not less than (A) 75% *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 or to the related Synthetic Security Counterparty (other than a Defeased Synthetic Security);
Fixed Rate Securities	(19) if such security (including any Single Obligation Synthetic Security as to which the Reference Obligation) is a Fixed Rate Security, a Deemed Fixed Rate Security or a Hybrid Security currently bearing interest at a fixed rate, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 25% of the Net Outstanding Portfolio Collateral Balance;
Pure Private Collateral Debt Securities	(20) if such security (including any Single Obligation Synthetic Security as to which the Reference Obligation) is a Pure Private Collateral Debt Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;
Guaranteed Asset-Backed Securities	(21) such security (including any Reference Obligation of a Single Obligation Synthetic Security) is not a Guaranteed Asset-Backed Security or a Monoline Guaranteed Security;

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Single Servicer

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

(A) if the Servicer is ranked (1) "Strong" or has a credit rating of "AA-" or higher by Standard & Poor's 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% 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% 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;

Synthetic Securities

(23) if such security is a Synthetic Security, (A) the Aggregate Principal Balance of all Pledged Collateral Debt Securities constituting Synthetic Securities does not exceed 40% of the Net Outstanding Portfolio Collateral Balance, (B) if such Synthetic Security is a Credit Derivative Transaction, such Credit Derivative Transaction is entered into with a counterparty that satisfies the definition of Synthetic Security Counterparty and the Issuer is the seller of protection with respect thereto and (C) if such Synthetic Security is a Credit Linked Security the payments on which depend on payments made by a counterparty of the Synthetic Security Issuer, such counterparty satisfies the definition of Synthetic Security Counterparty;

CDO Obligations

(24) if such security (including any Single Obligation Synthetic Security as to which the Reference Obligation is a CDO Obligation) is a CDO Obligation, (A) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are CDO Obligations (together with the Aggregate Principal Balance of any Single Obligation Synthetic Security as to which the Reference Obligation is such a security) does not exceed 35% of the Net Outstanding Portfolio Collateral Balance, (B) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are CDO Obligations (together with the Aggregate Principal Balance of any Single Obligation Synthetic Security as to which the Reference Obligation is such a security) publicly rated below "Aa3" by Moody's (if publicly rated by Moody's) or below "AA-" by Standard & Poor's (if publicly rated by Standard & Poor's) does not exceed 5% of the Net Outstanding Portfolio Collateral Balance and (C) such CDO Obligation is not publicly rated below "A3" by Moody's (if publicly rated by Moody's) or below "A-" by Standard & Poor's (if publicly rated by Standard & Poor's);

Frequency of Interest Payments

(25) (A) such security provides for periodic payments of interest in cash not less frequently than semi-annually and (B) if such security provides for periodic payments of interest in cash less frequently than quarterly, the Aggregate Principal Balance of all Pledged Collateral Debt Securities that provide for

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periodic payments of interest in cash less frequently than quarterly (together with the Aggregate Principal Balance of any Synthetic Securities related thereto) does not exceed 10% of the Net Outstanding Portfolio Collateral Balance;

Step-Down Bonds

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

Negative Amortization Securities

(27) if such security (including any Synthetic Security as to which the sole Reference Obligation) is a Negative Amortization Security, the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Negative Amortization Securities does not exceed 15% of the Net Outstanding Portfolio Collateral Balance;

Collateral Quality Tests

(28) after the Ramp-Up Completion Date, each of the applicable Collateral Quality Tests 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 or the Standard & Poor's CDO Monitor Test was not satisfied, the extent of compliance with any such Collateral Quality Test or the Standard & Poor's CDO Monitor Test which was not satisfied is maintained or improved by such acquisition; and, so long as there is a Controlling Beneficiary, the Class A Sequential Pay Ratio is at least equal to 100%;

Prohibited Securities

(29) such security is not a Prohibited Security;

Limitation on Stated Maturity

(30) such security (including the Reference Obligation of any Single Obligation Synthetic Security) does not have a Stated Maturity that occurs later than the Stated Maturity of the Notes, provided that (A) 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% 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; and (B) 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% 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;

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PIK Bonds	(31) if such security is a PIK Bond, (i) it is not a Deferred Interest PIK Bond, and (ii) the Aggregate Principal Balance of all such PIK Bonds (together with the Aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligation of which is such a security) does not exceed 5% of the Net Outstanding Portfolio Collateral Balance;
Floating Rate Securities	(32) if such security is a Floating Rate Security, a Deemed Floating Rate Security or a Hybrid Security currently bearing interest at a floating rate (including any Single Obligation Synthetic Security, which, taking into account the investments in the Synthetic Security Counterparty Account, provides for payments at a floating rate), (i) the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 80% 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;
Deemed Floating Rate Securities; Deemed Fixed Rate Securities	(33) if such security is a Deemed Floating Rate Security or a Deemed Fixed Rate Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities does not exceed 10% of the Net Outstanding Portfolio Collateral Balance;
Single Issuer Concentration	(34) after giving effect to acquisition of such security, the Aggregate Principal Balance of all Pledged Collateral Debt Securities issued by the issuer of such security does not exceed 1% 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% but less than or equal to 1.5% of the Net Outstanding Portfolio Collateral Balance; and
CMBS Securities	(35) so long as there is a Controlling Beneficiary, if such security is a CMBS Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities (together with the Aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligation of which is such a security) does not exceed 10% of the Net Outstanding Portfolio Collateral Balance; *provided* that (A) if such security is a CMBS Conduit Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities (together with the Aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligation of which is such a security) does not exceed 5% of the Net Outstanding Portfolio Collateral Balance and (b) if such security is a CMBS Large Loan Security, the Aggregate Principal Balance of all such Pledged Collateral Debt Securities (together with the Aggregate Principal Balance of each Single Obligation Synthetic Security the Reference Obligation of which is such a security) does not exceed 5% of the Net Outstanding Portfolio Collateral Balance.

"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.

"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.

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"Qualifying Foreign Obligor" means a corporation, partnership or other entity organized or incorporated 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.

In the case of a commitment made after the Closing Date, if the Issuer has made a commitment to acquire a security, then the Eligibility Criteria need not be satisfied when the Issuer Grants such security to the Trustee if (A) the Issuer acquires such security within, in the case of new issuances of mortgage-backed securities, 45 days, and otherwise, 30 days, of making the commitment to acquire such security and (B) the Eligibility Criteria were satisfied immediately after the Issuer made such commitment. With respect to paragraphs (2), (5), (19) through (35) above, 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 was the subject of a commitment entered into by the Issuer prior to the occurrence of such Event of Default. After the Reinvestment Period ends, no Collateral Debt Security may be acquired by the Issuer unless it was the subject of a commitment entered into by the Issuer prior to the end of the Reinvestment Period.

The Issuer may not acquire any Collateral Debt Security from the Collateral Manager, the Trustee or any affiliate thereof, unless such acquisition is made (a) on an "arm's-length basis" and is effected in a secondary market transaction on terms at least as favorable to the Noteholders as transactions with third parties or (b) pursuant to the Warehouse Agreement. 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.

Upon the termination of a Credit Derivative Transaction, any Synthetic Security Collateral that does not consist of cash or Eligible Investments and which is not liquidated in connection with the termination of such Synthetic Security will be transferred to the Custodial Account and held therein as Collateral Debt Securities and disposed of only in accordance with "—Disposition of Collateral Debt Securities".

"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. Any Deemed Fixed Rate Hedge Agreement shall satisfy the applicable Deemed Hedge Conditions.

"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.

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

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

"Deemed Floating Rate Hedge Agreement" means, with respect to a 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. Any Deemed Fixed Rate Hedge Agreement shall satisfy the applicable Deemed Hedge Conditions.

"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.

"Deemed Hedge Conditions" means (a) each transaction under a Deemed Fixed/Floating Rate Hedge Agreement shall relate to only one Deemed Fixed Rate Security or Deemed Floating Rate Security, as the case may be, (b) Deemed Fixed/Floating Rate Hedge Agreement shall either be a Form-Approved Hedge Agreement or satisfy the Rating Condition, (c) the initial notional amount of each transaction under a Deemed Fixed/Floating Rate Hedge Agreement shall equal the outstanding principal amount of the related Deemed Fixed Rate Security or Deemed Floating Rate Security, as the case may be, on the trade date for such transaction, (d) the notional amount of each transaction under a Deemed Fixed/Floating Rate Hedge Agreement shall amortize in accordance with the amortization of the outstanding principal amount of the related Deemed Fixed Rate Security or Deemed Floating Rate Security, as the case may be, that is expected to occur after the trade date for such transaction, (e) any termination of a transaction under a Deemed Fixed/Floating Rate Hedge Agreement shall be subject to satisfaction of the Rating Condition unless no termination amount (other than accrued and unpaid amounts) shall be payable by the Issuer in connection with such termination, (f) no transaction shall be entered into under a Deemed Fixed/Floating Rate Hedge Agreement unless the difference in the expected average life of the related Deemed Fixed Rate Security or Deemed Floating Rate Security, as the case may be, between the slow case and the fast case (as determined by the Collateral Manager on the trade date for such transaction) does not exceed one year, (g) no transaction shall be entered into under a Deemed Fixed/Floating Rate Hedge Agreement unless the Moody's Rating of the related Deemed Fixed Rate Security or Deemed Floating Rate Security, as the case may be, is equal to or greater than the highest Moody's Rating from among the group of Collateral Debt Securities determined as follows: (i) first, rank each Collateral Debt Security from the lowest Moody's Rating to the highest Moody's Rating as of the trade date for such transaction and (ii) second, include in such group each Collateral Debt Security from lowest to highest Moody's Rating until the Aggregate Principal Amount of all such included Collateral Debt Securities equals or first exceeds 10% of the Net Outstanding Portfolio Collateral Balance on the trade date for such transaction, (h) no transaction shall be entered into under a Deemed Fixed/Floating Rate Hedge Agreement if the Aggregate Principal Balance of all Deemed Fixed

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Rate Securities and Deemed Floating Rate Securities would exceed 10% of the Net Outstanding Portfolio Collateral Balance, and (i) no transaction shall be entered into under a Deemed Fixed/Floating Rate Hedge Agreement shall include any upfront payment by or to the Issuer unless (x) in the case of a payment by the Issuer, such amount is paid from amounts available pursuant to clause (18) of the Interest Proceeds Waterfall and (y) in the case of a payment to the Issuer, such amount is treated as Principal Proceeds.

"Eligible Investments" include any Dollar-denominated investment that is one or more of the following (and may include investments for which the Trustee and/or its Affiliates or the Collateral Manager and/or its Affiliates provides services or receives compensation):

(a) cash;

(b) direct Registered obligations of, and Registered obligations the timely payment of principal and interest on which is fully and expressly guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States;

(c) demand and time deposits in, certificates of deposit of, bankers' acceptances payable within 183 days of issuance issued by, or Federal funds sold by any depository institution or trust company incorporated under the laws of the United States or any state thereof and subject to supervision and examination by Federal and/or state banking authorities so long as the commercial paper and/or the debt obligations of such depository institution or trust company (or, in the case of the principal depository institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of not less than "Aa2" by Moody's (and, if such rating is "Aa2", such rating is not on watch for possible downgrade by Moody's) and not less than "AA+" by Standard & Poor's 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), "A-1+" by Standard & Poor's (or "A-1" by Standard & Poor's with respect to overnight investments offered by Wells Fargo Bank, National Association, for so long as Wells Fargo 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-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

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"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+" and "A-1+" 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 (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;

(g) asset-backed commercial paper with a maturity of not more than 183 days from the date of issuance and having at the time of such investment a credit rating of "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and "A-1+" by Standard & Poor's and, 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;

(h) Registered reinvestment agreements issued or unconditionally guaranteed by any bank (if treated as a deposit by such bank), or a Registered reinvestment agreement issued or unconditionally guaranteed by any insurance company or other corporation or entity organized under the laws of the United States or any state thereof (if treated as debt by the issuer), in each case, that has a credit rating of "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and "A-1+" by Standard & Poor's; provided that, if such security has a maturity of longer than 91 days, the issuer or guarantor 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 "Aa1" by Moody's (and, if such rating is "Aa1", such rating is not on watch for possible downgrade by Moody's) and the entry into any such reinvestment agreement shall satisfy the Rating Condition with respect to Standard & Poor's; and

(i) interests in any money market fund or similar investment vehicle having at the time of investment therein the highest credit rating assigned by Moody's and a rating of "AAAm" by Standard & Poor's;

and, in each case (other than in the case of clause (a)), with a stated maturity or, in the case of clause (i), 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 (a) any mortgaged-backed security, (b) any security that does not provide for payment or repayment of a stated principal amount in one or more installments, (c) any security purchased at a price in excess of 100% of the par value thereof, (d) any investment the income from or proceeds of disposition of which is or will be subject to reduction for or on account of any withholding or similar tax, (e) any security the acquisition (including the manner of acquisition), ownership, enforcement or disposition of which will subject the Issuer to net income tax in any jurisdiction, (f) any Floating Rate Security (other than the time deposits described in paragraph (c) above) whose interest rate is inversely or otherwise not proportionately related to an interest rate index

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or is calculated as other than the sum of an interest rate index plus or minus a spread; (g) any security whose rating by Standard & Poor's includes the subscript "r", "t", "p", "pi" or "q", (h) any security that is subject to an Offer; (i) any security that the Collateral Manager determines to be subject to substantial non-credit-related risk; or (j) any Interest Only Securities; *provided* that notwithstanding the foregoing, when used in relation to a Synthetic Security Counterparty Account, Eligible Investments shall include any investments that are both (A) within the terms and conditions of a Form-Approved Synthetic Security and (B) approved in writing by the related Synthetic Security Counterparty so long the acquisition (including the manner of acquisition), ownership, enforcement or disposition of such security will not subject the Issuer to net income tax in any jurisdiction. 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.

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

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

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

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

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

"Offer" means with respect to any security, (i) any offer by the issuer of such security or by any other person made to all of the holders of such security to purchase or otherwise acquire such security (other than pursuant to any redemption in accordance with the terms of the related Underlying Instruments) or to convert or exchange such security into or for cash, securities or any other type of consideration or (ii) any solicitation by the issuer of such security or any other person to amend, modify or waive any provision of such security or any related Underlying Instrument.

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

"Rating Condition" means with respect to any action taken or to be taken under the Indenture, a condition that is satisfied when (i) each of Standard & Poor's and Moody's (or if the Indenture expressly so specifies in respect of such action, the specified Rating Agency) has confirmed in writing to the Trustee and the Collateral Manager that such action will not result in the withdrawal, reduction or other

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adverse action with respect to any then-current rating (including any private or confidential rating) by such Rating Agency of any Class of Notes, and (ii) so long as there is a Controlling Beneficiary, the Controlling Beneficiary has given a written consent to such action to the Trustee.

"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.

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

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

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

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

Asset-Backed Securities

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

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Residential, REIT Debt Securities—Retail, REIT Debt Securities—Storage, Residential A Mortgage Securities, Residential B/C Mortgage Securities, Small Business Loan Securities, Student Loan Securities, Subprime Automobile Securities and Synthetic ABS CDO Securities. "Asset-Backed Securities" are obligations or securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from (a) a specified pool of financial assets or real estate mortgages, either static or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities, and include ABS REIT Debt Securities 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.

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

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

The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Often Asset-Backed Securities are structured to reallocate the risks entailed in the underlying collateral (particularly credit risk) into security tranches that match the desires of investors. For example, senior subordinated security structures give holders of senior tranches greater credit risk protection (albeit at lower yields) than holders of subordinated tranches. Under this structure, at least two classes of Asset-Backed Securities are issued, with the senior class having a priority claim on the cash flows from the underlying pool of assets. The subordinated class normally must absorb credit losses on the collateral before losses can be charged to the senior portion. Because the senior class has this priority claim, cash flows from the underlying pool of assets must first satisfy certain requirements of the senior class (as and to the extent specified in the underlying documents). Only after these requirements have been met will the cash flows be directed to service the subordinated class.

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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 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.

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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-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

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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 will vary depending on the credit quality of the underlying collateral, the degree and nature of credit enhancement and the degree of variability in the cash flows emanating from the securitized loans.

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

Most of the Collateral Debt Securities are expected to consist of Residential A Mortgage Securities, Residential B/C Mortgage Securities and Home Equity Loan Securities (collectively, "RMBS"), Commercial Mortgage-Backed Securities ("CMBS") and CDO Obligations meeting the eligibility criteria described herein. 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

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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 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.

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

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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, including the issuer of a Residential ABS Security, could be liable for all claims and subject to all defenses that the borrower could assert against the originator of the mortgage loan.

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 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.

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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".

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

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

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

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

"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

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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). 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.

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"Corporate Debt Security": means any outstanding debt security, whether secured or unsecured, that on the date of acquisition thereof by the Issuer, (i) if subordinated by its terms, is subordinated only to indebtedness for borrowed money, trade claims, capitalized leases or other similar obligations, (ii) is publicly issued or privately placed, (iii) is issued by an issuer incorporated or organized under the laws of the United States or any state thereof or by a Qualifying Foreign Obligor and (iv) is not a CDO Obligation or Other ABS.

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

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

"High-Diversity CDO Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a portfolio of commercial and industrial loans, asset-backed securities (including collateralized debt obligations), trust preferred and similar securities or corporate debt securities (or any combination of the foregoing), or from one or more credit default swaps which reference such securities or loans and/or the obligors thereon, generally having the following characteristics: (1) such loans and securities have varying contractual maturities; (2) such loans and securities are obligations of issuers that represent a relatively diversified pool of credit risk having a Moody's diversity score higher than 20 or a Moody's Asset Correlation of less than 15%; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans or securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of loans or securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (4) in some cases, proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional loans, asset-backed securities and/or corporate debt securities.

"Home Equity Loan Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from balances (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

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having the following characteristics: (1) the balances have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; (3) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum line of credit and general economic matters; and (4) the loan or line of credit may be secured by residential real estate with a market value (determined on the date of origination of such loan or line of credit) that is less than the original proceeds of such loan or line of credit.

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

"Low-Diversity CDO Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a portfolio of asset-backed securities (including collateralized debt obligations), commercial and industrial loans, trust preferred and similar securities or corporate debt securities (or any combination of the foregoing), or from one or more credit default swaps which reference such securities or loans and/or the obligors thereon, generally having the following characteristics: (1) the loans and securities have varying contractual maturities; (2) the loans and securities are obligations of a pool of obligors or issuers that represent a relatively undiversified pool of credit risk having a Moody's diversity score of 20 or lower or a Moody's Asset Correlation of 15% or more; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual securities and loans depending on numerous factors specific to the particular issuers and upon whether, in the case of loans or debt securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (4) in some cases, proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional loans and/or debt securities.

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

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

"Multiline Guaranteed Security" means any Asset-Backed Security as to which the timely payment of interest when due and the payment of principal no later than stated legal maturity is unconditionally guaranteed pursuant to an insurance policy, guarantee or other similar instrument issued by a Multiline Insurer organized under the laws of a state of the United States, but only if such insurance policy, guarantee or other similar instrument (1) expires no earlier than such stated maturity, (2) provides that payment thereunder is independent of the performance by the obligor on the relevant Asset-Backed Security and (3) is issued by a Multiline Insurer having a credit rating assigned to it by a nationally recognized statistical rating organization that currently rates such Asset-Backed Security which is higher than the credit rating assigned by such rating organization that currently rates such Asset-Backed Security

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which is higher than the credit rating assigned by such rating organization to such Asset-Backed Security determined without giving effect to such insurance policy, guarantee or other similar instrument.

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

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

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

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

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

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

"REIT Debt Securities—Multi-Family" means Asset-Backed Securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision) whose assets consist (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to

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holders of the Asset-Backed Securities) of residential mortgages on multi-family dwellings such as apartment blocks, condominiums and co-operative owned buildings; *provided* that any Asset-Backed Security falling within this definition shall be excluded from the definition of each other Specified Type of Asset-Backed Security.

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

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

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

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

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

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

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

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

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

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purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

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

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

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

"ABS Type Diversified Securities" means (1) Automobile Securities; (2) Credit Card Securities; (3) Student Loan Securities; and (4) any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as "ABS Type Diversified Securities" in connection therewith.

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

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

The Issuer may designate Asset-Backed Securities, CDO Obligations and Other ABS of other "Specified Types" for inclusion in the Pledged Collateral Debt Securities if the Rating Condition has been satisfied with respect to, and the Initial Hedge Counterparty (so long as the Initial Hedge Agreement remains in effect) has consented to, such designation.

Synthetic Securities

General

A portion of the Collateral Debt Securities may consist of Synthetic Securities. The Synthetic Securities may consist of either Credit Derivative Transactions entered into between the Issuer and a Synthetic Security Counterparty or Credit Linked Securities acquired by the Issuer from a Synthetic Security Issuer. Each such Synthetic Security will have a probability of default, recovery upon default and expected loss characteristics closely correlated to a Reference Obligation or Reference Obligations (or expected loss characteristics corresponding to losses incurred above and/or below specified thresholds with respect to such Reference Obligation or Reference Obligations), but may provide for a different maturity, interest rate or other non-credit characteristics than such Reference Obligation or Reference Obligations.

For purposes of determining the Principal Balance of a Synthetic Security at any time, the Principal Balance of such Synthetic Security shall be equal to (i) in the case of any Credit Derivative

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Transaction that does not provide that the Issuer has any (contingent or otherwise) payment obligations to the Synthetic Security Counterparty after an initial payment thereunder and any Credit Linked Security, the aggregate amount of the repayment obligations of the Synthetic Security Counterparty or Synthetic Security Issuer, as applicable, payable to the Issuer through the maturity of such Synthetic Security and (ii) in the case of any Credit Derivative Transaction not described in the preceding clause (i), (1) at any time prior to the delivery of a notice of physical settlement, the notional amount of such Synthetic Security and (2) at any time following the delivery of a notice of physical settlement but prior to the receipt by the Issuer of the related Deliverable Obligation, the physical settlement amount of such Synthetic Security, in each case determined in accordance with the related Underlying Instruments.

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

For purposes of the Asset Correlation Test, (i) a Synthetic Security that is a Single Obligation Synthetic Security will be included as a Collateral Debt Security having the characteristics of the related Reference Obligation (and the issuers thereof will be deemed to be the related Reference Obligors and not the Synthetic Security Issuer or Synthetic Security Counterparty) and (ii) a Synthetic Security that references more than one Reference Obligation will be included as a Collateral Debt Security having the characteristics of the Synthetic Security. For purposes of the Collateral Quality Tests other than the Asset Correlation Test, for purposes of the Standard & Poor's CDO Monitor Test, and for determining the Moody's Rating of a Synthetic Security, a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the Synthetic Security and not of the related Reference Obligation, except that, for purposes of determining the industry classification with respect to any Synthetic Security for the Standard & Poor's CDO Monitor Test, a Single Obligation Synthetic Security will be included as a Collateral Debt Security having the characteristics of the related Reference Obligation.

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

Initial Synthetic Securities

It is anticipated that all of the Synthetic Securities acquired on the Closing Date will consist of Form Approved Synthetic Securities in the form of Credit Linked Securities issued by a special purpose master trust as Synthetic Security Issuer. Although a single credit linked trust unit is expected to be issued to the Issuer by the Synthetic Security Issuer referencing multiple Reference Obligations, such trust unit will be structured such that the economic consequences to the Issuer will replicate the entry by the Issuer into an individual "pay as you go" credit default swap with respect to each such Reference Obligation.

The Synthetic Security Issuer with respect to such Credit Linked Securities is expected to enter into a "pay as you go" credit default swap, based on the ISDA forms of "pay as you go" credit default swaps with respect to Asset-Backed Securities but incorporating certain modifications to reflect the structure of the transactions and certain Rating Agency requirements, with Merrill Lynch International ("MLI"), as Synthetic Security Counterparty. Pursuant to such credit default swap, (a) the Synthetic Security Issuer will be obligated to make floating payments to the Synthetic Security Counterparty at any time when, in respect of any Reference Obligation, there is (i) a writedown (including (w) any writedown or applied loss that, under the documentation relating to such Reference Obligation, results in a reduction in the outstanding principal amount of such Reference Obligation, (x) any attribution of a principal deficiency or realized loss that, under the documentation relating to such Reference Obligation, results in a reduction or subordination of the current interest payable on such Reference Obligation, (y) the

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forgiveness of any amount of principal by the holders of such Reference Obligation resulting in a reduction in the outstanding principal amount of such Reference Obligation and (z) if the documentation relating to such Reference Obligation does not provide for writedowns, applied losses, principal deficiencies or realized losses, a determination by the calculation agent that the aggregate outstanding principal amount of such Reference Obligation and all other obligations that rank senior to or *pari passu* with such Reference Obligation exceeds the outstanding asset pool balance), (ii) a shortfall in the payment of principal of such Reference Obligation on the final amortization date or the legal final maturity date thereof (subject to certain grace periods) or (iii) a shortfall in the payment of interest on such Reference Obligation on any interest payment date therefor (determined without giving effect to provisions of the documentation relating to such Reference Obligation that would limit amount the amount of interest payable to available funds or provide for the capitalization or deferral of interest) (the occurrence of any such interest shortfall, an "Interest Shortfall"), (b) the Synthetic Security Issuer will be obligated to pay a physical settlement amount (generally equal to principal amount of the Reference Obligations being delivered) to the Synthetic Security Counterparty in the event that a "credit event" occurs with respect to a Reference Obligation and the Synthetic Security Counterparty elects to deliver a notice of physical settlement and delivers to the Synthetic Security Issuer, as a deliverable obligation, such Reference Obligation and (c) the Synthetic Security Counterparty will pay to the Synthetic Security Issuer a fixed amount in respect of each Reference Obligation thereunder and additional fixed amounts in the event that, following a writedown, interest shortfall or principal shortfall, each as described above, the Reference Obligor makes a subsequent payment in partial or full satisfaction of such writedown, interest shortfall or principal shortfall (if such payment is made during the term of, or within a limited time following, the termination of the transaction relating to such Reference Obligation). The fixed amount payable by the Synthetic Security Counterparty for each calculation period will be reduced by any interest shortfall amount payable by the Synthetic Security Issuer to the Synthetic Security Counterparty during such calculation period, *provided* that the amount of any such interest shortfall amount payable by the Synthetic Security Issuer to the Synthetic Security Counterparty for any calculation period may not exceed the fixed amount payable by the Synthetic Security Counterparty to the Synthetic Security Issuer for such calculation period.

The "credit events" that may be designated by the Synthetic Security Counterparty in respect of a Reference Obligation under such credit default swap are expected to consist of (i) a principal shortfall on the final amortization date or the legal final maturity date of the Reference Obligation, (ii) a writedown (as described above) or (iii) a downgrade of such Reference Obligation's rating to (x) a rating of "Caa2" or below by Moody's or (subject to certain qualifications) the rating assigned by Moody's is withdrawn and not reinstated within five business days, (y) a rating of "CCC" or below by Standard & Poor's or (subject to certain qualifications) the rating assigned by Standard & Poor's is withdrawn and not reinstated within five business days or (z) a rating of "CCC" or below by Fitch or (subject to certain qualifications) the rating assigned by Fitch is withdrawn and not reinstated within five business days Under such credit default swap, the Collateral Manager on behalf of the Issuer will be permitted to terminate transactions with respect to particular Reference Obligations or substitute Reference Obligations.

For any Credit Linked Security, in the event that a floating payment resulting from an Interest Shortfall is payable by the Synthetic Security Issuer under the "pay as you go" credit default swap, such floating payment will result in a reduction in the amount of interest or periodic distribution payable to the Issuer under such Credit Linked Security for the period in which such Interest Shortfall occurs. In the event that a floating payment resulting from an event other than an Interest Shortfall is payable by such Synthetic Security Issuer, it will liquidate collateral in order to provide the funds to pay such floating payment, and such liquidation will reduce the principal balance of the Credit Linked Security held by the Issuer. In the event that a "credit event" occurs with respect to a Reference Obligation and the Synthetic Security Counterparty elects to physically settle such "credit event," the Synthetic Security Issuer will pay

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the applicable physical settlement amount to the Synthetic Security Counterparty with the proceeds of the liquidation of its collateral and will take delivery of such Reference Obligation from the Synthetic Security Counterparty. Any such Reference Obligation so delivered will likely have a lower value than the value of the collateral liquidated to pay the physical settlement amount and, in such case, the liquidation of collateral and delivery of the Reference Obligation will likely result in the Issuer incurring a substantial loss of principal on its investment in such Credit Linked Security.

The proceeds from the issuance of such Credit Linked Securities are expected to be invested by the Synthetic Security Issuer in collateral that will secure the Synthetic Security Issuer's obligations to the Synthetic Security Counterparty in respect of such credit default swap. Such collateral may consist of cash or debt securities, including commercial paper, money market securities, corporate bonds and asset-backed securities that at the time of investment are either (x) fully guaranteed or insured by the U.S. government or any agency thereof or (y) either (1) have a long-term rating of "AAA" by Standard & Poor's and "Aaa" by Moody's, or (2) if they are investments that mature one year or less from the date of purchase by the Synthetic Security Issuer, have a short-term rating of at least "A-1" by Standard &Poor's and "P-1" by Moody's.

The Synthetic Security Issuer of such Credit Linked Securities is expected to enter into an asset swap transaction with MLI, as asset swap counterparty, with respect to such collateral. Under the terms of such asset swap transaction, the Synthetic Security Issuer will pay to MLI all of the interest and fees payable in respect of such collateral and MLI will pay to the Synthetic Security Issuer three-month LIBOR, on payment dates specified under such asset swap transaction. Because such payments of three-month LIBOR under such asset swap transaction will not coincide with payments of three-month LIBOR as calculated under the Indenture, the Synthetic Security Issuer will also enter into a basis swap transaction with MLI, as basis swap counterparty, pursuant to which the Synthetic Security Issuer will pay MLI three-month LIBOR as calculated under the asset swap transaction and MLI will pay to the Synthetic Security Issuer three-month LIBOR as calculated under the Indenture. The asset swap transaction will also provide that, to the extent the Synthetic Security Issuer is obligated to liquidate collateral in order (i) to make credit protection payments to the Synthetic Security Counterparty, (ii) to make a payment to the Issuer in connection with a redemption of the Credit Linked Securities or (iii) to make termination payments to the Synthetic Security Counterparty in connection with a termination of all or a portion of such credit default swap, (x) if the sale proceeds from such liquidation of collateral are less than the initial purchase price of such collateral, the asset swap counterparty will pay to the Synthetic Security Issuer the amount of such shortfall and (y) if the sale proceeds from such liquidation of collateral exceed the initial purchase price of such collateral, the Synthetic Security Issuer will pay to the asset swap counterparty the amount of such excess. If the asset swap counterparty has actual knowledge that an item of collateral no longer has (i) if it is a security that matures more than one year from the date of purchase, a long-term rating of at least "AA-" by Standard & Poor's and a long-term rating of at least "Aa3" by Moody's or (ii) if it is a security that will mature one year or less from the date of purchase, a short-term rating of "A-1+" by Standard & Poor's and a short-term rating of "P-1" by Moody's, the asset swap counterparty will direct the Synthetic Security Issuer to sell such collateral. The asset swap counterparty will have the right to direct the Synthetic Security Issuer to invest any cash held by it in other types of eligible collateral and will be entitled to exercise voting rights with respect to such collateral.

It is expected that, under the terms of such Credit Linked Securities, the Issuer will be entitled to receive periodic payments in respect of such Credit Linked Securities in an amount equal to the fixed rate amounts received by the Synthetic Security Issuer from MLI as Synthetic Security Counterparty under the credit default swap plus three-month LIBOR received from MLI as basis swap counterparty minus any amounts (other than in respect of termination payments) payable by the Synthetic Security Issuer to MLI under the credit default swap and the basis swap (other than the payment by the Synthetic Security Issuer to MLI of three-month LIBOR as calculated under the asset swap transaction). In addition, the Issuer will

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be entitled to receive redemption payments in connection with a redemption of the Credit Linked Securities (i) in connection with any principal amortization of the related Reference Obligation, in an amount equal to such principal payment, (ii) on the stated maturity of a Credit Linked Security, in an amount (if any) equal to the remainder of the adjusted principal balance thereof minus any amounts required to be retained to make a credit protection payment with respect to a credit event with respect to the related Reference Obligation that may have occurred prior to the termination but with respect to which physical or other settlement has not yet occurred, (iii) following the expiration of the period in which any amounts so retained must be paid, in the amount (if any) remaining after payment of any such credit protection payments, (iv) in connection with receipt by the Synthetic Security Issuer of a reimbursement in respect of a credit protection payment previously made by the Synthetic Security Issuer pursuant to the credit default swap, in an amount equal to such reimbursement payment and (v) in connection with a termination of all or a portion of the credit default swaps, in an amount equal to the adjusted principal balance thereof minus any termination payments payable to the Synthetic Security Counterparty by the Synthetic Security Issuer plus any termination payments payable by the Synthetic Security Counterparty to the Synthetic Security Issuer. The initial principal balance of such Credit Linked Securities will be reduced by any redemption amounts paid to the Issuer (other than out of termination payments received by the Synthetic Security Issuer) and any credit protection payments made by the Synthetic Security Issuer to the Synthetic Security Counterparty under the credit default swap and will be increased by any reimbursement payments received by the Synthetic Security Issuer from the Synthetic Security Counterparty in respect of a credit protection payment previously made by the Synthetic Security Issuer to the Synthetic Security Counterparty pursuant to the credit default swap. If the Synthetic Security Issuer receives a deliverable obligation under the credit default swap, such deliverable obligations will be delivered by the Synthetic Security Issuer to the Issuer. Any Deliverable Obligation received by the Issuer (other than a Defaulted Security that is required to be sold) may be retained by the Issuer as a Collateral Debt Security.

Although the foregoing describes in general terms the initial Synthetic Securities that the Issuer is expected to acquire on the Closing Date, the Issuer may at any time dispose of such Synthetic Securities and/or acquire or enter into other Synthetic Securities having different terms (*provided* that any Synthetic Securities acquired or entered into by the Issuer satisfy the Eligibility Criteria).

The Initial Synthetic Security Counterparty

The information appearing in this section has been prepared by the initial Synthetic Security Counterparty and has not been independently verified by the Co-Issuers, the Collateral Manager, the Trustee or the Initial Purchaser. Accordingly, notwithstanding anything to the contrary herein, none of the Co-Issuers, the Collateral Manager, the Trustee and the Initial Purchaser assume any responsibility for the accuracy, completeness or applicability of such information. The initial Synthetic Security Counterparty accepts responsibility only for the information *contained in the following three paragraphs.*

The initial Synthetic Security Counterparty entering into a "pay as you go" credit default swap with the Synthetic Security Issuer of the Credit Linked Securities acquired by the Issuer on the Closing Date will be Merrill Lynch International ("MLI"). MLI is incorporated under the laws of England with its registered address at Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ, United Kingdom. It is a wholly owned indirect subsidiary of Merrill Lynch & Co. ("ML&Co."). MLI does not publish financial statements.

The payment obligations of MLI under the credit default swap relating to the Credit Linked Securities acquired by the Issuer on the Closing Date (as well as the obligations of MLI in respect of the asset swap and basis swap related thereto) will be guaranteed by ML&Co. ML&Co. is incorporated under the laws of the State of Delaware and has its principal executive office at 4 World Financial Center,

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New York, New York 10281, (212) 449-1000. Its registered office in the State of Delaware is c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

ML&Co. files reports, proxy statements and other information with the SEC. The SEC filings are also available over the Internet at the SEC's web site at http://www.sec.gov. Investors may also read and copy any document filed at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on the public reference rooms and their copy charges. Investors may also inspect the SEC reports and other information at the New York Stock Exchange, 20 Broad Street, New York, New York 10005. ML&Co. will provide without charge to each person to whom this Offering Circular is delivered, on written request of such person, a copy (without exhibits) of any or all such documents so filed since January 1, 2000. Requests for such copies should be directed to the Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, New York, NY 10038, telephone (212) 670-0432.The Collateral Quality Tests

The Collateral Quality Tests

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

The "Collateral Quality Tests" will be used as criteria for purchasing Collateral Debt Securities and for investor reporting. See "—Eligibility Criteria". The Collateral Quality Tests will consist of the 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 Manager, 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 minimum Moody's Asset Correlation Factor required to satisfy the Moody's Asset Correlation Test (the "Designated Maximum Moody's Asset Correlation Factor ") and the Moody's Maximum Rating Distribution required to satisfy the Moody's Maximum Rating Distribution Test (the "Designated Moody's Maximum Rating Distribution") for each Rating Matrix are set forth opposite such Rating Matrix in the table below.

Ratings Matrix	Designated Maximum Moody's Asset Correlation Factor	Designated Moody's Maximum Rating Distribution
1	17%	80
2	18%	75
3	19%	70
4	20%	65

Moody's Asset Correlation Test. The "Moody's Asset Correlation Test" will be satisfied on the Ramp-Up Completion Date and any Measurement Date thereafter if the Moody's Asset Correlation Factor

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on such Measurement Date (calculated based on a model that assumes 150 separate obligors) is equal to or less than the Designated Maximum Moody's Asset Correlation Factor for any of Ratings Matrix 1, 2, 3 or 4; *provided* that the applicable Moody's Maximum Rating Distribution on such Measurement Date is equal to or less than the Designated Moody's Maximum Rating Distribution for the same Ratings Matrix. The "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 Manager and the Collateral Administrator by Moody's.

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

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

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

For purposes of the Moody's Maximum Rating Distribution Test:

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

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(b) With respect to any Synthetic Security the Moody's Rating Factor shall be determined as specified by Moody's at the time such Synthetic Security is acquired by the Issuer, except that in the case of a Form Approved Synthetic Security the Moody's Rating Factor shall be the same as for the Reference Obligation.

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

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

Moody's Minimum Weighted Average Recovery Rate Test. The "Moody's Minimum Weighted Average Recovery Rate Test" will be satisfied 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 94%.

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

Weighted Average Spread Test. The "Weighted Average Spread Test" 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 Spread as of the Ramp-Up Completion Date is equal to or grater than 0.54% and (y) 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%.

The "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 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 Defaulted Securities, Deferred Interest PIK Bonds and Written Down Amounts) plus (b) if such amount obtained pursuant to clause (a) is less than the applicable percentage specified in the definition of "Weighted Average Spread Test", the Fixed Rate Excess, if any, as of such Measurement Date. For purposes of this definition, (1) no contingent payment of interest will be included in such calculation, (2) in the case of any Floating Rate Security that does not bear interest at a rate expressed as a stated spread above a London Interbank Offered Rate, the interest rate payable on such Floating Rate Security on any Measurement Date shall be calculated as a spread above or below LIBOR and (3) if on such Measurement Date such rate is calculated as a spread below a London Interbank Offered Rate, such spread shall be expressed as a negative number for purposes of making the calculation described in clause (i) of the preceding sentence. When calculating the Weighted Average

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Spread, a Hybrid Security that is bearing interest at a floating rate shall be considered a Floating Rate Security.

The "Fixed Rate Excess" as of any Measurement Date will equal a fraction (expressed as a percentage) the numerator of which is equal to the product of (a) the greater of zero and the excess, if any, of the Weighted Average Coupon for such Measurement Date over 5.85% until the Ramp-Up Completion Date and 5.5% thereafter and (b) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Fixed Rate Securities or Deemed Fixed Rate Securities (excluding Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities) and the denominator of which is the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Floating Rate Securities or Deemed Floating Rate Securities (excluding Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities).

Weighted Average Coupon Test. The "Weighted Average Coupon Test" means a test that is satisfied on any Measurement Date 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 5.5%.

The "Weighted Average Coupon" means, as of any Measurement Date, the sum (rounded up to the next 0.001%) of (a) the number obtained by (i) summing the products obtained by multiplying (x) the Current Interest Rate with respect to each Pledged Collateral Debt Security that is a Fixed Rate Security or Deemed Fixed Rate Security (other than a Defaulted Security, Deferred Interest PIK Bond or Written Down 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 all Defaulted Securities, Deferred Interest PIK Bonds and Written Down Amounts) plus (b) if such sum of the numbers obtained pursuant to clause (a) is less than the applicable percentage specified in the definition of "Weighted Average Coupon Test", the Spread Excess, if any, as of such Measurement Date. For purposes of this definition, no contingent payment of interest will be included in such calculation. When calculating the Weighted Average Coupon, a Hybrid Debt Security that is currently bearing interest at a fixed rate shall be considered a Fixed Rate Security.

The "Spread Excess" as of any Measurement Date will equal a fraction (expressed as a percentage) the numerator of which is equal to the product of (a) the greater of zero and the excess, if any, of the Weighted Average Spread for such Measurement Date over 0.54% until the Ramp-Up Completion Date and 0.51% thereafter and (b) the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Floating Rate Securities or Deemed Floating Rate Securities (excluding Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities) and the denominator of which is the Aggregate Principal Balance of all Pledged Collateral Debt Securities that are Fixed Rate Securities or Deemed Fixed Rate Securities (excluding Defaulted Securities, Deferred Interest PIK Bonds and Written Down Securities).

Weighted Average Life Test. The "Weighted Average Life Test" means a test satisfied if, on any Measurement Date on or after the Ramp-Up Completion Date, the Weighted Average Life 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:

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As of any Measurement Date occurring during the period below:	Weighted Average Life (in years)
Ramp-Up Completion Date to and including October 1, 2007	8.5
Thereafter to and including October 1, 2008	7.5
Thereafter to and including October 1, 2009	6.5
Thereafter to and including October 1, 2010	5.5
Thereafter to and including October 1, 2011	4.5
Thereafter	3.5

On any Measurement Date with respect to any Pledged Collateral Debt Securities, the "Weighted Average Life" is the number obtained by (i) summing the products obtained by multiplying (a) the Average Life at such time of each such Pledged Collateral Debt Security by (b) the outstanding principal balance of such Pledged Collateral Debt Security and (ii) dividing such sum by the Aggregate Principal Balance at such time of all such Pledged Collateral Debt Securities.

On any Measurement Date with respect to any Pledged Collateral Debt Security, the "Average Life" is the quotient obtained by dividing (i) the sum of the products of (a) the number of years (rounded to the nearest one tenth thereof) from such Measurement Date to the respective dates of each successive scheduled distribution of principal of such Pledged Collateral Debt Security and (b) the respective amounts of principal of such scheduled distributions by (ii) the sum of all successive scheduled distributions of principal on such Pledged Collateral Debt Security (as determined by the Collateral Manager).

Standard & Poor's Minimum Recovery Rate Test. The "Standard & Poor's Minimum Recovery Rate Test" will be satisfied if, on any Measurement Date on or after the Ramp-Up Completion Date, the Standard & Poor's Recovery Rate as of such Measurement Date is equal to, or greater than, (a) with respect to the Class A-1 Notes and the Class A-2 Notes, 50%; (b) with respect to the Class B Notes, 57%; (c) with respect to the Class C Notes, 67%; (d) with respect to the Class D Notes, 73%; and (e) with respect to the Class E Notes, 77%.

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

Standard & Poor's CDO Monitor Test

If on any date on or after the Ramp-Up Completion Date, upon the acquisition of any Collateral Debt Security (after giving effect to the acquisition of such Collateral Debt Security), the Standard & Poor's CDO Monitor Test is not satisfied or, if immediately prior to such investment the Standard & Poor's CDO Monitor Test was not satisfied, the result is not closer to compliance, the Issuer must promptly deliver to the Trustee, the Noteholders, the Hedge Counterparty and Standard & Poor's an officer's certificate specifying the extent of non-compliance.

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

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purchase of a Collateral Debt Security (or both), as the case 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 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 and Commitment Fee on such Class of Notes in full by their Stated Maturity and the timely payment of interest and Commitment Fee 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 Manager and the Collateral Administrator on or prior to the Ramp-Up Completion Date for the purpose of estimating the default risk of Collateral Debt Securities, as amended by Standard & Poor's from time to time.

The Standard & Poor's CDO 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 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

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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

The Collateral Debt Securities may be retired prior to their respective final maturities due to, among other things, the existence and frequency of exercise of any optional or mandatory redemption features of such Collateral Debt Securities. In addition, pursuant to the Indenture, the Issuer may sell Collateral Debt Securities (including termination of Synthetic Securities) in the following circumstances:

(i) The Issuer may, at the direction of the Collateral Manager, sell (or, in the case of any Credit Derivative Transaction or Credit Linked Security with respect to which the Issuer may direct the termination of underlying credit derivative transactions, exercise its right, if any, to terminate) any Deferred Interest PIK Bond, Defaulted Security, Written Down Security, Credit Risk Security, Credit Improved Security or Equity Security at any time; *provided* that during the Reinvestment Period, the Collateral Manager may use its commercially reasonable efforts to purchase, no later than 30 days after the sale of any Credit Risk Security, substitute Collateral Debt Securities with an Aggregate Principal Balance no less than the Sale Proceeds (net of any accrued interest included therein) from such sale in compliance with the Eligibility Criteria (other than the requirement of the Eligibility Criteria relating to the Standard & Poor's CDO Monitor Test); and *provided further* that (a) during the Reinvestment Period, a Credit Improved Security may be sold only if, in the Collateral Manager's judgment (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), (I) the resulting Sale Proceeds will be reinvested within 10 Business Days of the sale of such Credit Improved Security in one or more substitute Collateral Debt Securities having an Aggregate Principal Balance (together with the remaining such Sale Proceeds not so reinvested, and exclusive of the accrued interest component of the Sale Proceeds) at least equal to 100% of the principal balance of the Credit Improved Security that was sold and (II) such sale and purchase shall be made in compliance with the Eligibility Criteria and any other criteria specified in the Indenture, (b) after the Reinvestment Period a Credit Improved Security may be sold (but the Sale Proceeds may not be reinvested) only if the Collateral Manager certifies to the Trustee in writing that (x) the Collateral Manager has determined that such security constitutes a Credit Improved Security and (y) on the date of such sale, in the Collateral Manager's judgment (exercised in accordance with the standard of care set forth in the Collateral Management Agreement), the Sale Proceeds (net of any accrued interest included therein) from such sale will be equal to or greater than the principal balance of the Credit Improved Security being sold; and (c) in connection with the reinvestment of the proceeds of a sale of a Credit Improved Security during the Reinvestment Period, any determination of whether the extent of non-compliance with any of the Eligibility Criteria may not be made worse by such reinvestment shall be made by comparing the Collateral Debt Securities held by the Issuer immediately prior to the sale of such Credit Improved Security to the Collateral Debt Securities held by the Issuer immediately after such reinvestment;

(ii) The Issuer, at the direction of the Collateral Manager, shall sell (a) any Defaulted Security (or, in the case of any Credit Derivative Transaction or Credit Linked Security with respect to which the Issuer may direct the termination of underlying credit derivative transactions that becomes a Defaulted Security, exercise its right, if any, to terminate such Synthetic Security) within three years after such Collateral Debt Security became a Defaulted Security (or by such later date as such Defaulted Security may first be sold in accordance with its terms and applicable law) and (b) any Equity Security or other consideration received by the Issuer in exchange for a

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Defaulted Security (or any Synthetic Security that becomes a Defaulted Security) that is not Margin Stock and is not a security which may not be purchased under items (7), (8) or (10) of the Eligibility Criteria within one year after the Issuer's receipt thereof (or within one year after such later date as such Equity Security may first be sold in accordance with its terms and applicable law);

(iii) The Issuer, at the direction of the Collateral Manager, shall sell each Equity Security or other consideration received by the Issuer (other than an Equity Security or other consideration described in clause (ii) above) in exchange for a Defaulted Security (or any Synthetic Security that becomes a Defaulted Security), and each Deliverable Obligation that is a Defaulted Security and does not satisfy each of items (6), (7), (8) and (10) of the Eligibility Criteria, 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);

(iv) The Issuer shall, in the event of an Auction Call Redemption, Optional Redemption, Tax Redemption or at the Stated Maturity, direct the Trustee to sell (or terminate, in the case of a Credit Derivative Transaction or Credit Linked Security with respect to which the Issuer may direct the termination of underlying credit derivative transactions), at the direction of the Collateral Manager, Collateral Debt Securities without regard to the foregoing limitations.

All Sale Proceeds of any Collateral Debt Securities sold by the Issuer as described above and not reinvested in substitute Collateral Debt Securities in accordance with "Description of the Notes—Reinvestment Period" will be deposited in the "Principal Collection Account" or "Interest Collection Account", as the case may be, and applied on the Distribution Date immediately succeeding the end of the Due Period or (in the case of Sales Proceeds which may be reinvested) the Distribution Date immediately succeeding the end of the Due Period after the Due Period in which they were received in accordance with the Priority of Payments or as otherwise required by the Indenture. Sale Proceeds consisting of accrued interest may be applied, in the Collateral Manager's discretion, to purchase accrued interest on substitute Collateral Debt Securities in accordance with the Eligibility Criteria.

Moreover, at any time during the Reinvestment Period the Issuer may, at the direction of the Collateral Manager, sell (or in the case of a Credit Derivative Transaction or Credit Linked Security with respect to which the Issuer may direct the termination of underlying credit derivative transactions, exercise its right, if any, to terminate) any Collateral Debt Security that is not a Deferred Interest PIK Bond, Defaulted Security, Written Down Security, Credit Risk Security, Credit Improved Security or Equity Security (a "Discretionary Sale"); *provided* that (i) the Principal Balance of Collateral Debt Securities purchased from the Sale Proceeds from such discretionary transactions during the Ramp-Up Period may not exceed 15% of the Aggregate Principal Balance of Collateral Debt Securities on the Closing Date and (ii) no Discretionary Sale may occur if a Rating Trigger has occurred and is continuing unless the Controlling Class has waived such requirement.

All Sale Proceeds of any Collateral Debt Securities sold by the Issuer as described above and not reinvested in substitute Collateral Debt Securities will be deposited in the "Principal Collection Account" or "Interest Collection Account", as the case may be, and applied in accordance with the Priority of Payments or, during the Reinvestment Period, to the purchase of additional Collateral Debt Securities.

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

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the Interest Collection Account to pay a termination payment (other than any Defaulted Synthetic Termination Payment) to a Synthetic Security Counterparty in connection with the disposition of a Credit Derivative Transaction if the Collateral Manager certifies to the Trustee that, after taking into account such application of Interest Proceeds, the remaining Interest Proceeds in the Interest Collection Account will be sufficient to pay, on the Distribution Date following the Due Period during which such termination payment is made, all accrued interest owed by the Issuer on the Notes and any other amounts required to be paid pursuant to clauses (1) through (18) of the Interest Proceeds Waterfall.

In the event of an Optional Redemption, Auction Call Redemption or a Tax Redemption, the Collateral Manager may direct the Trustee to sell Collateral Debt Securities without regard to the limitations described above that are applicable to sales by the Issuer; *provided* that (i) the proceeds therefrom will be at least sufficient to pay certain expenses and other amounts and redeem in whole but not in part all Notes to be redeemed simultaneously; (ii) such proceeds are used to make such a redemption; and (iii) in the case of an Optional Redemption or Tax Redemption, the Issuer provides a certification as to the Sale Proceeds of the Collateral containing calculations which are confirmed in writing by independent accountants as set forth in the Indenture. See "Description of the Notes—Optional Redemption and Tax Redemption", "—Redemption Procedures" and "—Auction Call Redemption".

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

"Credit Improved Security" means any Collateral Debt Security (or the Reference Obligation in the case of a Single Obligation Synthetic Security) that satisfies one of the following criteria: (a) so long as no Rating Trigger has occurred and is continuing, such Collateral Debt Security (or the Reference Obligation in the case of a Single Obligation Synthetic Security) has shown, in the sole judgment of the Collateral Manager (exercised in the reasonable business judgment of the Collateral Manager in good faith) significantly improved credit quality or (b) such Collateral Debt Security (or the Reference Obligation in the case of a Single Obligation Synthetic Security) has (i) been upgraded or put on a watch list for possible upgrade by one or more rating subcategories by Standard & Poor's or Moody's since it was acquired by the Issuer and (ii) has shown, in the sole judgment of the Collateral Manager (exercised in the reasonable business judgment of the Collateral Manager in good faith) significantly improved credit quality.

"Credit Risk Security" means any Collateral Debt Security (or the Reference Obligation in the case of a Single Obligation Synthetic Security) that satisfies the following criteria: (i) so long as no Rating Trigger has occurred and is continuing, the Collateral Manager believes (as of the date of the Collateral Manager's determination based upon currently available information) has a risk of declining in credit quality and, with lapse of time, becoming a Defaulted Security or a Written Down Security or (ii) either (x) such Collateral Debt Security (or the Reference Obligation in the case of a Single Obligation Synthetic Security) has been downgraded or put on a watch list for possible downgrade by any Rating Agency by one or more rating subcategories since it was acquired by the Issuer or (y) such Collateral Debt Security (or the Reference Obligation in the case of a Single Obligation Synthetic Security) has experienced an increase in credit spread of 10% or more compared to the credit spread at which such Collateral Debt Security was acquired by the Issuer, determined by reference to the LIBOR reset for a Floating Rate Security and by reference to the comparable swap rate for a Fixed Rate Security (and, in each case, the Collateral Manager believes (as of the date of the Collateral Manager's determination based

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upon currently available information) such Collateral Debt Security has a risk of declining in credit quality and, with lapse of time, becoming a Defaulted Security or a Written Down Security).

"Rating Trigger" means that either (A) the rating assigned by Moody's to any Class of Notes on the Closing Date has been (i) withdrawn, (ii) reduced by at least one subcategory in the case of the Class A-1 Notes, the Class A-2 Notes, the Class B Notes or the Class C Notes, (iii) reduced by two or more subcategories in the case of the Class D Notes, or (iv) reduced by three or more subcategories in the case of the Class E Notes, in each case from the rating assigned by Moody's on the Closing Date or (B) the rating assigned by Standard & Poor's to any Class of Notes on the Closing Date has been (i) withdrawn, (ii) reduced by at least one subcategory in the case of the Class A-1 Notes, the Class A-2 Notes or the Class B Notes, (iii) reduced by two or more subcategories in the case of the Class C Notes or the Class D Notes, or (iv) reduced by three or more subcategories in the case of the Class E Notes, in each case from the rating assigned by Standard & Poor's on the Closing Date.

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

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

The Hedge Agreements

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

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The Issuer shall not enter into any Hedge Agreement the payments from which are subject to withholding tax or the entry into, performance, enforcement or termination of which would subject the Issuer to tax on a net income basis in any jurisdiction.

The initial Hedge Counterparty (the "Initial Hedge Counterparty") will be Bear Stearns Capital Markets Inc. (in respect of each confirmation entered into by the Issuer with it on the Closing Date) and Merrill Lynch International (in respect of each confirmation entered into by the Issuer with it on the Closing Date). Rights of the Initial Hedge Counterparty under the Indenture that do not specifically relate to an Initial Hedge Agreement are several and not joint and may be independently exercised by each Initial Hedge Counterparty (so long as it is party to an Initial Hedge Agreement). See "Risk Factors—Interest Rate Risk".

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

The Initial Hedge Agreement, which will be in effect on the Closing Date, will provide that the Initial Hedge Counterparty will make a payment of U.S.$16,914,000 on the Closing Date to the Issuer (the "Up Front Payment"). The fixed rate payments to be made by the Issuer to the Initial Hedge Counterparty under the initial Hedge Agreement include the repayment by the Issuer of this Up Front Payment together with interest thereon. The Issuer's obligations to the Initial Hedge Counterparty in respect of repayment of the Up Front Payment, together with interest thereon, will be secured under the Indenture and will be senior in priority to the Issuer's obligations to pay interest on and principal of the Notes.

Each Hedge Agreement will provide that:

(i) if a Collateralization Event occurs, the Hedge Counterparty and the Issuer shall enter into an agreement, solely at the expense of the Hedge Counterparty, in the form of the ISDA Credit Support Annex attached as Annex B to the Hedge Agreement; *provided* that, a Ratings Event will be deemed to have occurred if the Hedge Counterparty has not, within 30 days following a Collateralization Event, (A) provided sufficient collateral as required under the Hedge Agreement and subject to satisfaction of the Rating Condition, (B) found another Hedge Counterparty in accordance with clause (iv), (C) obtained a guarantor for the obligations of the Hedge Counterparty under the Hedge Agreement that satisfies the Hedge Counterparty Ratings Requirement (with such form of guarantee satisfying Standard & Poor's then-current (and publicly available) criteria with respect to guarantees) or (D) taken such other steps as each Rating Agency that has downgraded the Hedge Rating Determining Party in respect of the Hedge Counterparty may require to cause the obligations of the Hedge Counterparty under the Hedge Agreement to be treated by such Rating Agency as if such obligations were owed by a counterparty which satisfies the Hedge Counterparty Ratings Requirement;

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

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(iii) at any time following a Collateralization Event, the Hedge Counterparty may terminate the Hedge Agreement on any Distribution Date; *provided* that (i) the Hedge Counterparty has identified another Hedge Counterparty that satisfies the Hedge Counterparty Ratings Requirement and the other requirements set forth in the Hedge Agreement and (ii) the entry into any replacement Hedge Agreement in connection with such termination satisfies the Rating Condition with respect to Standard & Poor's; and

(iv) following the occurrence of a Ratings Event, the Hedge Counterparty will be required to assign its rights and obligations under the Hedge Agreement at no cost to the Issuer to a party (the "Substitute Party") selected by the Issuer (with the advice and assistance of the Hedge Counterparty, which advice and assistance shall include actively seeking a replacement counterparty and will not be unreasonably withheld, and with the Hedge Counterparty paying the costs and expenses of the Issuer in connection therewith) (x) in the case of a Ratings Event occurring as a result of a downgrade, withdrawal or suspension by Moody's, within 10 days following such Ratings Event or, if the Issuer does not select a Substitute Party within 10 days following such Ratings Event, to a party selected by the Hedge Counterparty within 20 days following the end of such 10-day period or (y) in the case of a Ratings Event occurring as a result of a downgrade, withdrawal or suspension from Standard & Poor's (an "S&P Ratings Event"), as soon as practicable but in no event later than 10 Business Days following such S&P Ratings Event; *provided* that such an assignment will not comply with this provision unless: (i) as of the date of such transfer neither the Substitute Party nor the Issuer will be required to withhold or deduct on account of any tax from any payments under the assigned agreement in excess of what would have been required to be withheld or deducted in the absence of such transfer; (ii) a "termination event" or "event of default" does not occur under the assigned agreement as a result of such assignment; (iii) each of the transferor and transferee will be a dealer in notional principal contracts; (iv) the Substitute Party satisfies the Hedge Counterparty Ratings Requirement and has delivered an opinion of counsel to the Issuer and the Trustee to the effect that any collateral posted by it will not be subject to any automatic stay or other similar limitation in connection with any realization thereon; (v) such Substitute Party assumes the obligations of the Hedge Counterparty under the Hedge Agreement (through an assignment and assumption agreement in form and substance reasonably satisfactory to the Issuer) or replaces the outstanding transactions with transactions on substantially identical terms, except that the Hedge Counterparty shall be replaced as counterparty; (vi) the Hedge Counterparty will be responsible for any stamp taxes and any reasonable costs or expenses incurred by the Trustee or the Issuer (and its agents) in connection with such assignment (including without limitation the reasonable costs of counsel); (vii) such assignment satisfies the Rating Condition; and (viii) payment has been made to the Hedge Counterparty by the Substitute Party or by the Hedge Counterparty to the Substitute Party (as applicable) of the termination payment calculated pursuant to Section 6(e) of the ISDA Master Agreement (applying "Second Method" and "Market Quotation", as such terms are defined in the ISDA Master Agreement) which forms a part of the Hedge Agreement, or such lesser or greater amount as the Hedge Counterparty and such Substitute Party may agree.

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.

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"Collateralization Event" means, in respect of any Hedge Counterparty, the occurrence of the following, *provided* that no Ratings Event has occurred:

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

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

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

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

The "Hedge Counterparty Ratings Requirement" means, with respect to a Hedge Counterparty or any permitted transferee thereof, (a) either (i) the unsecured, unguaranteed and otherwise unsupported short-term debt obligations of the related Hedge Rating Determining Party are rated at least "A-1" by Standard & Poor's, or (ii) if no short-term debt obligations of such Hedge Rating Determining Party are rated by Standard & Poor's, the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated at least "A+" by Standard & Poor's; and (b) either (i) (x) the unsecured, unguaranteed and otherwise unsupported short-term debt obligations of such Hedge Rating Determining Party are rated at least "P-1" by Moody's (and such rating is not on watch for possible downgrade) and (y) the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated higher than "A1" by Moody's or are rated "A1" by Moody's (and such rating is not on watch for possible downgrade) or (ii) if there is no such short-term debt rating by Moody's, the unsecured, unguaranteed and otherwise unsupported long-term senior debt obligations of such Hedge Rating Determining Party are rated higher than "Aa3" by Moody's or are rated at least "Aa3" by Moody's (and such rating is not on watch for possible downgrade). 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.

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"Ratings Event" means, with respect to any Hedge Agreement, any of the following events: (i) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Moody's is withdrawn, suspended or falls below "A2", if the Hedge Rating Determining Party has a long-term rating only; (ii) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Moody's is withdrawn, suspended or falls to or below "A3" or the short-term senior unsecured debt rating of the Hedge Rating Determining Party falls to or below "P-2"; (iii) the long-term senior unsecured debt rating of the Hedge Rating Determining Party from Standard & Poor's is withdrawn, suspended or falls below "BBB-"; or (iv) the failure of the Hedge Counterparty to provide, within 10 days following the Collateralization Event, sufficient collateral as required pursuant to the terms set forth in "Collateralization Event" above.

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, such failure shall constitute a "termination event" with respect to such Hedge Counterparty.

The Hedge Agreements will also 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 and (b) any Auction Call Redemption, Optional Redemption or Tax Redemption. In the event that amounts are applied to the redemption of Notes on any Distribution Date in accordance with the Priority of Payments by reason of a Rating Confirmation Failure, or a failure to satisfy any of the Overcollateralization Tests, then, subject to the satisfaction of the Rating Condition, the Hedge Agreements (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. In addition, subject to satisfaction of the Rating Condition with respect to Standard & Poor's, the Collateral Manager may direct the Issuer to reduce the notional amount of the interest rate swap outstanding under the Hedge Agreements upon 10 business days' prior written notice to the Hedge Counterparty. Upon any such termination or reduction of a notional amount, a termination payment with respect to the notional amount terminated or reduced may become payable by a Hedge Counterparty or by the Issuer to the other party under the related Hedge Agreement, with such termination payment being calculated as described herein.

If at any time a Hedge Agreement becomes subject to early termination due to the occurrence of an "event of default" or a "termination event" as to which the Hedge Counterparty party thereto is the sole "defaulting party" or the sole "affected party" (as each such term is defined in the relevant Hedge Agreement), the Issuer and the Trustee shall take such actions (following the expiration of any applicable grace period) to enforce the rights of the Issuer and the Trustee thereunder as may be permitted by the terms of such Hedge Agreement and consistent with the terms hereof, and shall apply the proceeds of any such actions (including the proceeds of the liquidation of any collateral pledged by such Hedge Counterparty) to enter into a replacement Hedge Agreement on substantially identical terms or on such other terms satisfying the Rating Condition with respect to Standard & Poor's, and with a Hedge Counterparty with respect to which the Rating Condition with respect to Standard & Poor's shall have been satisfied. 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.

Amounts payable upon any such termination or reduction will be based upon standard replacement transaction valuation methodology set forth in the 1992 ISDA Master Agreement published by the International Swaps and Derivatives Association, Inc. (the "Master Agreement").

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Except as otherwise provided in this paragraph, no Deemed Fixed Rate Hedge Agreement or Deemed Floating Rate Hedge Agreement shall be subject to early termination by the Issuer without satisfaction of the Rating Condition with respect to Standard & Poor's and Moody's, other than by reason of (A) an event of default or termination event relating to the Issuer or the relevant Hedge Counterparty specified in Section 5 of the ISDA Master Agreement relating to such Hedge Agreement or in the Schedule thereto (provided that the Issuer, or the Collateral Manager 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 (taking into account any reinvestment of the Sale Proceeds from the underlying asset), the Issuer satisfies the Collateral Quality Tests, 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 Manager 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) with respect to Standard & Poor's and Moody's and to the following conditions: (a) each transaction under a Deemed Fixed/Floating Rate Hedge Agreement shall relate to only one Deemed Fixed Rate Security or Deemed Floating Rate Security, as the case may be, (b) Deemed Fixed/Floating Rate Hedge Agreement shall either be a Form-Approved Hedge Agreement or satisfy the Rating Condition, (c) the initial notional amount of each transaction under a Deemed Fixed/Floating Rate Hedge Agreement shall equal the outstanding principal amount of the related Deemed Fixed Rate Security or Deemed Floating Rate Security, as the case may be, on the trade date for such transaction, (d) the notional amount of each transaction under a Deemed Fixed/Floating Rate Hedge Agreement shall amortize in accordance with the amortization of the outstanding principal amount of the related Deemed Fixed Rate Security or Deemed Floating Rate Security, as the case may be, that is expected to occur after the trade date for such transaction, (e) any termination of a transaction under a Deemed Fixed/Floating Rate Hedge Agreement shall be subject to satisfaction of the Rating Condition unless no termination amount (other than accrued and unpaid amounts) shall be payable by the Issuer in connection with such termination, (f) no transaction shall be entered into under a Deemed Fixed/Floating Rate Hedge Agreement unless the difference in the expected average life of the related Deemed Fixed Rate Security or Deemed Floating Rate Security, as the case may be, between the slow case and the fast case (as determined by the Collateral Manager on the trade date for such transaction) does not exceed one year, (g) no transaction shall be entered into under a Deemed Fixed/Floating Rate Hedge Agreement unless the Moody's Rating of the related Deemed Fixed Rate Security or Deemed Floating Rate Security, as the case may be, is equal to or greater than the highest Moody's Rating from among the group of Collateral Debt Securities determined as follows: (i) first, rank each Collateral Debt Security from the lowest Moody's Rating to the highest Moody's Rating as of the trade date for such transaction and (ii) second, include in such group each Collateral Debt Security from lowest to highest Moody's Rating until the Aggregate Principal Amount of all such included Collateral Debt Securities equals or first exceeds 10% of the Net Outstanding Portfolio Collateral Balance on the trade date for such transaction, (h) no transaction shall be entered into under a Deemed Fixed/Floating Rate Hedge Agreement if the Aggregate Principal Balance of all Deemed Fixed Rate Securities and Deemed Floating Rate Securities would exceed 10% of the Net Outstanding Portfolio Collateral Balance, and (i) no transaction shall be entered into under a Deemed Fixed/Floating Rate Hedge Agreement shall include any upfront payment by or to the Issuer unless (x) in the case of a payment by the Issuer, such amount is paid from amounts available pursuant to clause (18) of the Interest

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Proceeds Waterfall and (y) in the case of a payment to the Issuer, such amount is treated as Principal Proceeds.

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 Issuer and the related Hedge Counterparty.

If any amount is payable by the Issuer to the Hedge Counterparty in connection with the occurrence of any such partial termination or notional amount reduction, such amount, together with interest on such amount for the period from and including the date of termination to but excluding the date of payment at a rate *per annum* equal to the interest rate specified in the related Hedge Agreement, shall be payable on such Distribution Date to the extent funds are available for such purpose in accordance with the Priority of Payments, and any amount not so paid on such Distribution Date shall be payable on the first Distribution Date on which such amount may be paid in accordance with the Priority of Payments.

The 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.

"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 with respect to Standard & Poor's 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 with respect to Standard & Poor's as a Form-Approved Hedge Agreement for specific use in this transaction (as certified to the Trustee by the Collateral Manager); *provided*, that if Standard & Poor's notifies the Trustee or the Collateral Manager 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.

"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.

"Deemed Fixed/Floating Rate Hedge Agreement" means a Deemed Fixed Rate Hedge Agreement or a Deemed Floating Rate Hedge Agreement.

The Accounts

On or prior to the Closing Date the Trustee will have established each of the following segregated, non-interest bearing trust accounts (the "Accounts"). Any investments of funds in the Accounts will be made in accordance with the direction of the Collateral Manager on behalf of the Issuer.

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Collection Accounts

All distributions on the Collateral Debt Securities and any proceeds received from the disposition of any such Collateral Debt Securities, to the extent such distributions or proceeds constitute Interest Proceeds, and any amounts 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"), each of which may be a subaccount of the Custodial Account. All distributions on the Collateral Debt Securities and any proceeds received from the disposition of any such Collateral Debt Securities to the extent such distributions or proceeds constitute Principal Proceeds will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the "Principal Collection Account" which may be a subaccount of the Custodial Account and, together with the Interest Collection Account, the "Collection Accounts"). The Collection Accounts shall be maintained for the benefit of the Secured Parties and amounts on deposit therein will be available, together with investment earnings thereon, for application in the order of priority set forth above under "Description of the Notes—Priority of Payments".

Amounts received in the Collection Accounts during a Due Period and amounts received in prior Due Periods and retained in the Collection Accounts under the circumstances set forth above in "Description of the Notes—Priority of Payments" will be invested in Eligible Investments (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 (i) are Sale Proceeds to be used to purchase Collateral Debt Securities in accordance with the Eligibility Criteria (and subject to the conditions specified in "Description of the Notes—Reinvestment Period" and "Security for the Notes—Dispositions of Collateral Debt Securities"), or to honor commitments with respect thereto entered into prior to the last day of the Reinvestment Period, (ii) are Interest Proceeds to be used by the Issuer to make scheduled payments due from the Issuer to the Hedge Counterparty under the Hedge Agreement or (iii) are used as otherwise permitted under the Indenture. See "—Eligibility Criteria".

Payment Account

On or prior to the Business Day prior to each Distribution Date, the Trustee will deposit into a single, segregated account established and maintained by the Trustee under the Indenture (the "Payment Account") for the benefit of the Secured Parties all Interest Proceeds and Principal Proceeds (other than Sale Proceeds of Credit Improved Securities, Credit Risk Securities and Discretionary Sales that the Issuer is entitled to reinvest in accordance with the Eligibility Criteria and the conditions specified in "Description of the Notes—Reinvestment Period" and "Security for the Notes—Dispositions of Collateral Debt Securities", which may be retained in the Collection Accounts for subsequent reinvestment, if the Issuer so elects as set forth in the Indenture) received, with respect to the related Due Period, in the Collection Accounts during the related Due Period 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".

If amounts on deposit in the Payment Account are invested pending payments on each Distribution Date, such amounts shall be invested in Eligible Investments with maturities no later than the next Distribution Date; provided that the Trustee shall not be under an obligation to invest amounts standing to the credit of the Payment Account.

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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"). After the Closing Date, the Trustee shall deposit all proceeds from any Borrowing in the Uninvested Proceeds Account. On and prior to the Ramp-Up Completion Date, the Collateral Manager on behalf of the Issuer may direct the Trustee to, and upon such direction the Trustee shall, invest funds in the Uninvested Proceeds Account in additional Collateral Debt Securities and, pending such investment in additional Collateral Debt Securities, such funds will be invested in Eligible Investments with stated maturities no later than the Business Day immediately preceding the next Distribution Date. Interest and other income from such investments shall be deposited in the Uninvested Proceeds Account, any gain realized from such investments shall be credited to the Uninvested Proceeds Account, and any loss resulting from such investments shall be charged to the Uninvested Proceeds Account. Investment earnings on Eligible Investments in the Uninvested Proceeds Account will be transferred to the Interest Collection Account and treated as Interest Proceeds one Business Day prior to the first Distribution Date.

At least one Business Day prior to the first Distribution Date following the occurrence of either a Rating Confirmation Failure or a Rating Confirmation after the Ramp-Up Completion Date (which will be the first Distribution Date after the Closing Date if the Ramp-Up Completion Date is the same date as the Closing Date), the Trustee shall transfer all remaining Uninvested Proceeds which are not required to complete purchases of Collateral Debt Securities to the Payment Account, to be treated *first*, as Interest Proceeds, if there has been a Rating Confirmation, in an amount equal to the Interest Excess if there has been a Rating Confirmation (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 such Uninvested Proceeds will be applied first to the payment of principal of the Notes in direct order of seniority if a Rating Confirmation Failure occurs. During the Ramp-Up Period, the Collateral Manager on behalf of the Issuer may by notice to the Trustee direct the Trustee to, and upon receipt of the issuer order, the Trustee shall (i) apply cash in the Uninvested Proceeds Account to purchase Collateral Debt Securities or (ii) withdraw cash in the Uninvested Proceeds Account and deposit it into a Synthetic Security Counterparty Account in connection with the purchase (or entry into) of a Defeased Synthetic Security.

Expense Account

After payment of the organizational and structuring fees, the fee to the Collateral Manager and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Manager and the Initial Purchaser) and the expenses of offering the Offered Securities, on the Closing Date, at least U.S.$75,000 from the proceeds of the offering of the Offered Securities will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the "Expense Account"). On each Distribution Date, to the extent that funds are available for such purpose in accordance with the Priority of Payments and subject to the dollar limitation set forth in subclauses (b) through (f) of 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.

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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. All funds on deposit in the Custodial Account, to the extent they are not reinvested in Collateral Debt Securities, will be invested in Eligible Investments. The Co-Issuers shall not have any legal, equitable or beneficial interest in the Custodial Account other than in accordance with the Priority of Payments.

"Pledged Securities" means on any date of determination, (a) the Collateral Debt Securities, Equity Securities and Eligible Investments that have been granted to the Trustee and (b) all non-cash proceeds thereof, in each case, to the extent not released from the lien of this Indenture pursuant hereto.

Interest Reserve Account

After payment of the organizational and structuring fees, the fee of the Collateral Manager and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Collateral Manager and the Initial Purchaser) and the expenses of offering the Offered Securities, on the Closing Date the Collateral Manager may, in its sole discretion, designate a specified amount from the proceeds of the offering of the Offered Securities to be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the "Interest Reserve Account"). Currently, such amount is expected to be U.S.$1,800,000. All funds on deposit in the Interest Reserve Account will be invested in Eligible Investments. The only permitted withdrawal from or application of funds on deposit in, or otherwise standing to the credit of, the Interest Reserve Account shall be as follows: (i) pursuant to written instructions from the Collateral Manager received at least one Business Day prior to the third Distribution Date, the Trustee will transfer all or a portion of the amount on deposit in the Interest Reserve Account to the Payment Account for application as Interest Proceeds in accordance with the Priority of Payments, (ii) pursuant to written instructions from the Collateral Manager received at least one Business Day prior to the third Distribution Date, the Trustee will transfer all or any portion of the amount on deposit in the Interest Reserve Account to the Payment Account for application as Principal Proceeds in accordance with the Priority of Payments and (iii) if the Trustee did not receive any written instruction from the Collateral Manager as described in the preceding clauses (i) or (ii) prior to the Determination Date prior to the third Distribution Date, then at least one Business Day prior to the third Distribution Date, the Trustee will transfer all amounts on deposit in the Interest Reserve Account to the Payment Account for application as Interest Proceeds in accordance with the Priority of Payments.

Semi-Annual Interest Reserve Account

On any date upon which the Issuer receives an interest payment in Cash in respect of a Semi-Annual Pay Collateral Debt Security, the Trustee shall deposit into the Semi-Annual Interest Reserve Account five-sixths of such interest payment. Commencing on the second Distribution Date in respect of the Class A-1 Notes after the date on which an interest payment on a Semi-Annual Pay Collateral Debt Security was received, at least one Business Day prior to such Distribution Date and each of the four Distribution Dates in respect of the Class A-1 Notes 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 shall

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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 shall be withdrawn) from, or application of funds on deposit in, or otherwise standing to the credit of, the Semi-Annual Interest Reserve Account.

Synthetic Security Counterparty Accounts

For each Defeased Synthetic Security, the Trustee will establish a single, segregated account (each such account, a "Synthetic Security Counterparty Account") that will be held in the name of the Trustee in trust for the benefit of the related Synthetic Security Counterparty and over which the Trustee will have exclusive control and the sole right of withdrawal in accordance with the applicable Synthetic Security and the Indenture; *provided* that a single Synthetic Security Counterparty Account may be established for all (or a designated portion) of the Synthetic Securities with the same Synthetic Security Counterparty. The Trustee and the Issuer shall, in connection with the establishment of a Synthetic Security Counterparty Account, enter into a separate account control and security agreement with the Synthetic Security Counterparty setting forth the rights and obligations of the Issuer, the Trustee and the Synthetic Security Counterparty with respect to such account and pursuant to which the Issuer shall grant the Trustee a first priority security interest in such Synthetic Security Counterparty Account for the benefit of the Synthetic Security Counterparty; *provided* that no security interest in favor of a Synthetic Security Counterparty in such Synthetic Security Counterparty Account shall include any income from investments of funds in such Synthetic Security Counterparty Account to which the Issuer is entitled pursuant to the terms of such Synthetic Security. As directed by issuer order (which may be executed by the Collateral Manager), the Trustee will withdraw from the Uninvested Proceeds Account or the Principal Collection Account and deposit into each Synthetic Security Counterparty Account the amount required to secure the obligations of the Issuer in accordance with the terms of the related Defeased Synthetic Security or Defeased Synthetic Securities, as applicable, to the extent that the relevant amount has not been deposited in the Synthetic Security Counterparty Account from the net proceeds received by the Issuer from the issuance of the Notes and the Preference Shares, which amount shall be at least equal to the amount referred to in paragraph (a) of the definition of Defeased Synthetic Security. The Collateral Manager will direct any such deposit during the Ramp-Up Period and during the Reinvestment Period and only to the extent that monies are available for the purchase of Collateral Debt Securities from Uninvested Proceeds and Sale Proceeds in accordance with the terms of the Indenture. Notwithstanding the foregoing, after the Ramp-Up Period ends, the Issuer may acquire Collateral Debt Securities that are the subjects of commitments entered into by the Issuer prior to the end of the Ramp-Up Period.

In accordance with the terms of the applicable Defeased Synthetic Security and related account control and security agreement, amounts standing to the credit of a Synthetic Security Counterparty Account shall be invested in Synthetic Security Collateral designated by the Synthetic Security Counterparty and approved by the Collateral Manager, which may be subject to derivatives transactions (including total return swaps) between the Issuer and the Synthetic Security Counterparty (or, subject to the consent of the Synthetic Security Counterparty and satisfaction of the Rating Condition, between the Issuer and other parties). Amounts and property credited to a Synthetic Security Counterparty Account shall be withdrawn by the Trustee and applied to the payment of any amounts payable by, or to the delivery of securities deliverable by, the Issuer to the related Synthetic Security Counterparty in accordance with the terms of such Defeased Synthetic Security. The Issuer also shall sell all or any part of the Synthetic Security Collateral at the times and in the manner provided in the applicable Synthetic Security. To the extent that the Issuer is entitled to receive interest on securities credited to a Synthetic Security Counterparty Account, the Collateral Manager shall, by issuer order, direct the Trustee to deposit such amounts in the Interest Collection Account (and such amounts shall be Interest Proceeds); provided that the Issuer may not enter into a derivative transaction if the payments from the counterparty or with

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respect to any reference obligation or deliverable obligation are subject to withholding tax or the Issuer is required to make gross-up payments under such derivative transaction or the entry into, performance, enforcement or termination of the derivative transaction or (if it were directly held) any reference obligation or deliverable obligation would subject the Issuer to tax on a net income basis in any jurisdiction outside the Issuer's jurisdiction of incorporation. After payment of all amounts owing by the Issuer to a Synthetic Security Counterparty in accordance with the terms of the related Defeased Synthetic Security or termination of a Synthetic Security following an event described in clause (c) of the definition of "Defeased Synthetic Security" (in which event no termination payment shall be due from the Issuer to such Synthetic Security Counterparty), the Collateral Manager, by issuer order, shall direct the Trustee to withdraw all funds and other property credited to the Synthetic Security Counterparty Account related to such Defeased Synthetic Security and credit such funds and other property to (i) the Principal Collection Account (in the case of cash and Eligible Investments), for application as Principal Proceeds (other than any investment income thereon, which will be Interest Proceeds) in accordance with the terms of the Indenture, and (ii) the Custodial Account (in the case of Collateral Debt Securities and other financial assets), which shall not be liquidated except in accordance with "Security for the Notes—Dispositions of Collateral Debt Securities"; *provided, however*, that if any other Defeased Synthetic Security secured by the same Synthetic Security Counterparty Account will remain in effect, (x) the funds and property to be withdrawn from the Synthetic Security Counterparty Account shall be selected in accordance with the Synthetic Security and (y) such withdrawal shall not cause the balance of the Synthetic Security Collateral in such Synthetic Security Counterparty Account to be less than the aggregate notional amount of the Synthetic Securities then in effect.

Except for interest on securities standing to the credit of a Synthetic Security Counterparty Account payable to the Issuer as described pursuant to the preceding paragraph, funds and other property standing to the credit of a Synthetic Security Counterparty Account shall not be considered to be an asset of the Issuer for purposes of the Collateral Quality Tests; however, the Defeased Synthetic Security that relates to such Synthetic Security Counterparty Account shall be considered an asset of the Issuer for such purposes.

Each Synthetic Security Counterparty Account shall remain at all times with a financial institution organized and doing business under the laws of the United States or any State thereof, authorized under such laws to exercise corporate trust powers and having a long-term debt rating of at least "Baa1" by Moody's (and, if rated "Baa1", not be on watch for possible downgrade by Moody's) and at least "BBB+" by Standard & Poor's and a combined capital and surplus in excess of U.S.$250,000,000.

"Synthetic Security Collateral" means in respect of any Defeased Synthetic Security entered into by the Issuer, (a) any Eligible Investments and (b) any CDO Security or Other ABS (consistent with the related Form-Approved Synthetic Security) pledged by the Issuer to or for the benefit of the related Synthetic Security Counterparty that, if included in the Collateral, would satisfy paragraphs (1) through (4) and (6) through (19) of the Eligibility Criteria and is rated at least "Aa3" by Moody's and at least "AA-" by Standard & Poor's.

A modification to the terms of the Indenture relating to a Synthetic Security Counterparty Account will require the consent of any Synthetic Security Counterparty materially and adversely affected by such modification.

Synthetic Security Issuer Accounts

If the terms of any Synthetic Security require the Synthetic Security Counterparty to secure its obligations with respect to such Synthetic Security, the Trustee shall cause to be established a segregated, non-interest bearing Securities Account in respect of such Synthetic Security (each such account, a

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"Synthetic Security Issuer Account"), which shall be held in the name of the Trustee as Entitlement Holder in trust for the benefit of the Secured Parties; *provided* that a single Synthetic Security Issuer Account may be established for all (or a designated portion) of the Synthetic Securities with the same Synthetic Security Counterparty. Upon issuer order, the Trustee, the Synthetic Security Counterparty and the Custodian shall enter into an account control agreement with respect to such account in a form substantially similar to the Account Control Agreement. The Trustee shall credit to any such Synthetic Security Issuer Account all funds and other property received from the applicable Synthetic Security Counterparty to secure the obligations of such Synthetic Security Counterparty in accordance with the terms of such Synthetic Security.

Amounts credited to a Synthetic Security Issuer Account shall be invested as directed by an issuer order executed by the Collateral Manager in writing and in accordance with the terms of the applicable Synthetic Security in Synthetic Security Collateral. Income received on amounts credited to such Synthetic Security Issuer Account shall be withdrawn from such account and paid to the related Synthetic Security Counterparty in accordance with the terms of the applicable Synthetic Security.

Funds and other property standing to the credit of any Synthetic Security Issuer Account shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Overcollateralization Tests; however, the Synthetic Security that relates to such Synthetic Security Issuer Account shall be considered an asset of the Issuer for such purposes.

In accordance with the terms of the applicable Synthetic Security, funds and other property standing to the credit of the related Synthetic Security Issuer Account shall, as directed by the Collateral Manager by issuer order, be withdrawn by the Trustee and applied to the payment of any amount owing by the related Synthetic Security Counterparty to the Issuer under the applicable Synthetic Security or Synthetic Securities. After payment of all amounts owed by the Synthetic Security Counterparty to the Issuer in accordance with the terms of the related Synthetic Security, all funds and other property standing to the credit of the related Synthetic Security Issuer Account shall be withdrawn from such Synthetic Security Issuer Account and paid or transferred to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security; *provided, however*, that if the obligations of the same Synthetic Security Counterparty under another Synthetic Security which will remain in effect are secured by the same Synthetic Security Issuer Account, the amount withdrawn therefrom shall not cause the remaining balance thereof to be less than the amount required to be posted by the Synthetic Security Counterparty to secure its obligations under the Synthetic Securities which will remain in effect.

Each Synthetic Security Issuer Account shall remain at all times with a financial institution organized and doing business under the laws of the United States or any State thereof, authorized under such laws to exercise corporate trust powers and having a long-term debt rating of at least "Baa1" by Moody's (and, if rated "Baa1", not be on watch for possible downgrade by Moody's) and at least "BBB+" by Standard & Poor's and a combined capital and surplus in excess of U.S.$250,000,000.

A modification of the terms of the Indenture relating to a Synthetic Security Issuer Account will require the consent of any Synthetic Security Counterparty materially and adversely affected thereby.

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THE COLLATERAL MANAGEMENT AGREEMENT

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

General

The Collateral Manager will perform certain investment management functions, including directing and supervising the investment by the Issuer in Collateral Debt Securities, 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 Management Agreement. The Collateral Manager will be authorized to supervise and direct the investment and disposition of Sale Proceeds in Collateral Debt Securities (which may include Synthetic Securities), Equity Securities and Eligible Investments, with full authority and at its discretion (without specific authorization from the Issuer), on the Issuer's behalf and at the Issuer's risk.

Compensation

As compensation for rendering its services under the Collateral Management Agreement, the Collateral Manager will be entitled to receive fees, payable quarterly (except that in the case of the first Distribution Date, the fee will cover the period from and including the Closing Date to but excluding the first Distribution Date) in arrears on each Distribution Date in accordance with the Priority of Payments, in an amount equal to the Management Fee of 0.08% *per annum* of the Average Quarterly Asset Amount for each Distribution Date. The Management Fees will be paid in accordance with the Priority of Payments. The Management Fee for any Distribution Date will be calculated on the basis of a 360-day year consisting of twelve 30-day months. See "Description of the Notes—Priority of Payments".

The Management Fees will accrue from the Closing Date. To the extent not paid on any Distribution Date when due, the Management Fee will be deferred and will be payable on subsequent Distribution Dates in accordance with the Priority of Payments. The Collateral Manager will have the right to elect to defer payment of its Management Fee on any Distribution Date. Any accrued but unpaid Management Fees that are deferred due to the operation of the Priority of Payments will not accrue interest. If the Collateral Manager elects to defer payment of any Management Fee which otherwise would have been paid in accordance with the Priority of Payments, such deferred Management Fee ("Deferred Management Fee") will accrue interest for each Interest Period at a *per annum* rate of LIBOR (such accrued interest, "Deferred Management Fee Interest"). Notwithstanding the foregoing, the Collateral Manager 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, the Collateral Manager will be reimbursed for certain other amounts owed to it under the Collateral Management Agreement pursuant to the Priority of Payments.

In addition, the Collateral Manager will receive from the Issuer an upfront management fee of U.S.$2,200,000 on the Closing Date.

Cohen & Company Securities, LLC, an affiliate of the Collateral Manager, may act as a placement agent with respect to certain of the Offered Securities.

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Removal

If the Collateral Management Agreement is terminated for any reason, or the entity then serving as Collateral Manager resigns or is removed, the Management Fees owing to such entity will be prorated for any partial periods between Distribution Dates, and such prorated amount shall be due and payable on the first Distribution Date following the date of such termination, subject to the Priority of Payments. No Management Fee payable to a successor Collateral Manager from payments on the Collateral may be greater than the Management Fee payable to the Collateral Manager (as of the Closing Date) without the prior written consent of a Majority-in-Interest of Preference Shareholders and, in the case of an increase in the Management Fee, a Majority of the Noteholders (voting as a single class).

The Collateral Manager may resign, upon 90 days' (or such shorter period as is acceptable to the Issuer) written notice to the Issuer, the Trustee and the Rating Agencies. If the Collateral Manager resigns, the Issuer agrees to use its commercially reasonable efforts to appoint a successor Collateral Manager, and the effectiveness of such resignation will be conditioned upon the appointment of such successor in the manner specified below.

The Collateral Manager may not be removed without cause.

The Collateral Manager may be removed for cause by the Issuer or the Trustee, at the direction of a Special-Majority-in-Interest of Preference Shareholders or by the holders of at least 66⅔% of the Aggregate Outstanding Amount of the Notes of the Controlling Class (excluding, in each case, any Collateral Manager Securities), upon 10 days' prior written notice to the Collateral Manager and the Controlling Beneficiary.

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

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

(2) the Collateral Manager breaches in any material respect any provision of the Collateral Management Agreement or any terms of the Indenture applicable to it or any representation, certificate or other statement made or given in writing by the Collateral Manager (or any of its directors or officers) pursuant to the Collateral Management Agreement or the Indenture shall prove to have been incorrect in any material respect when made or given, which breach or materially incorrect representation, certificate or statement (i) has a material adverse effect on the Noteholders of any Class of Notes or any Preference Shareholders and (ii) within 30 days of its becoming aware (or receiving notice from the Trustee) of such breach, or such materially incorrect representation, certificate or statement, the Collateral Manager fails to cure such breach, or to take such action so that the facts (after giving effect to such actions) conform in all material respects to such representation, certificate or statement;

(3) the Collateral Manager is wound up or dissolved or there is appointed over it or a substantial portion of its assets in connection with any winding up, liquidation, reorganization or other relief under any bankruptcy, insolvency, receivership or similar law, a receiver, administrator, administrative receiver, trustee or similar officer; or the Collateral Manager (i) ceases to be able to, or admits in writing its inability to, pay its debts as they become due and payable, or makes a general assignment for the benefit of, or enters into any composition or arrangement with, its creditors generally; (ii) applies for or consents (by admission of material allegations of a petition or otherwise) to the appointment of a receiver, trustee, assignee, custodian, liquidator or sequestrator (or other similar official)

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of the Collateral Manager 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 Manager and continue undismissed for 60 consecutive days; (iii) authorizes or files a voluntary petition in bankruptcy, or applies for or consents (by admission of material allegations of a petition or otherwise) to the application of any bankruptcy, reorganization, arrangement, readjustment of debt, insolvency or dissolution, or authorizes such application or consent, or proceedings to such end are instituted against the Collateral Manager without such authorization, application or consent and are approved as properly instituted and remain undismissed for 60 consecutive days or result in adjudication of bankruptcy or insolvency; or (iv) permits or suffers all or any substantial part of its properties or assets to be sequestered or attached by court order and the order remains undismissed for 60 consecutive days;

(4) the occurrence of any Event of Default under Section 5.1(a) of the Indenture with respect to the Class A-1 Notes or under Section 5.1(h) or (i) of the Indentue. Event of Default under the Indenture which breach substantially results from any breach or default by the Collateral Manager of its duties under the Collateral Management Agreement or under the Indenture, which breach or default is not cured within any applicable cure period; or

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

The Collateral Manager shall promptly notify the Issuer, the Trustee, the Preference Share Paying Agent and the Rating Agencies if, to its actual knowledge, a "cause" event, or an event which with the giving of notice or the lapse of time (or both) would become "cause", occurs.

Any resignation or removal of the Collateral Manager, or termination of this Agreement, will be effective only upon (i) the appointment by the Issuer at the direction of a Majority-in-Interest of Preference Shareholders (including Preference Shares that are Collateral Manager Securities) of an institution as successor Collateral Manager that is not an Affiliate of the Collateral Manager, provided, that the holders of a majority of the Aggregate Outstanding Amount of each Class of Notes do not disapprove such institution within 30 days of notice of such appointment, and such institution (1) has demonstrated an ability to professionally and competently perform duties similar to those imposed upon the Collateral Manager under the Collateral Management Agreement, (2) is legally qualified and has the capacity to act as Collateral Manager under the Collateral Management Agreement as successor to the Collateral Manager, (3) has agreed in writing to assume all of the responsibilities, duties and obligations of the Collateral Manager under the Collateral Management Agreement and under the applicable terms of the Indenture, (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) will perform its duties as Collateral Manager under the Collateral Management Agreement without causing the Issuer to become subject to net income tax outside its jurisdiction of incorporation (clauses (1) through (5), the "Replacement Manager Conditions"); and (ii) satisfaction of the Rating Condition with respect to such appointment.

The Issuer, the Trustee and the successor Collateral Manager shall take such action (or cause the outgoing Collateral Manager to take such action) consistent with the Collateral Management Agreement and the terms of the Indenture applicable to the Collateral Manager as shall be necessary to effectuate any such succession. If the Collateral Manager shall resign or be removed but a successor Collateral Manager

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shall not have assumed all of the Collateral Manager's duties and obligations under the Collateral Management Agreement within 60 days after such resignation or removal, then the holders of a majority of the Aggregate Outstanding Amount of the Notes of the Controlling Class will have the right to appoint a successor Collateral Manager.

In the event that the Collateral Manager is terminated and neither the Issuer nor the Trustee shall have appointed a successor on or prior to the date that is 90 days following the date of the termination notice, the Collateral Manager will be entitled to appoint a successor and will so appoint a successor within 90 days thereafter, subject to such successor's satisfaction of the Replacement Manager Conditions and the approval of such successor by holders of a majority of the Aggregate Outstanding Amount of each Class of Notes and a Majority-in-Interest of Preference Shareholders. In lieu thereof, or, if the successor Collateral Manager appointed by the resigning or removed Collateral Manager is disapproved, the resigning or removed Collateral Manager, the Issuer or the holders of at least 25% of the Preference Shares or at least 25% of the Aggregate Outstanding Amount of any Class of Notes may petition any court of competent jurisdiction for the appointment of a successor Collateral Manager, which appointment shall not require the consent of, nor be subject to the disapproval of, the Issuer or any holder of Notes or Preference Shares.

Any Collateral Manager Securities will have no voting rights with respect to any vote (i) in connection with the removal of the Collateral Manager or (ii) increasing the rights or decreasing the obligations of the Collateral Manager, and will be deemed not to be outstanding in connection with any such vote; *provided*, *however*, that any such Collateral Manager Securities will have voting rights and will be deemed outstanding with respect to all other matters as to which holders of Offered Securities are entitled to vote.

The Collateral Management Agreement may not be assigned or delegated by the Collateral Manager, in whole or in part, without (i) the prior written consent of the Issuer, (ii) the prior written consent of or affirmative vote by a Majority-in-Interest of Preference Shareholders (excluding any Collateral Manager Securities) and (iii) satisfaction of the Rating Condition with respect to such assignment or delegation; *provided*, *however*, that the Collateral Manager may assign any or all of its rights or delegate any or all of its obligations under the Collateral Management Agreement to an Affiliate of the Collateral Manager without obtaining the consents specified in the preceding clauses (i) and (ii), if such Affiliate meets the Replacement Manager Conditions, and if immediately after the assignment or delegation, such Affiliate employs principal personnel performing the duties under the Collateral Management Agreement who are the same individuals who would have performed such duties had the assignment or delegation not occurred.

The Collateral Management Agreement may not be assigned by the Issuer without the prior written consent of the Collateral Manager and the prior written consent of or affirmative vote by a majority in Aggregate Outstanding Amount of the 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 Management Agreement and by the terms of such assignment in the same manner as the Issuer is bound under the Indenture or (ii) to the Trustee as contemplated by the Indenture. In the event of any assignment by the Issuer, the Issuer shall use its best efforts to cause its successor to execute and deliver to the Collateral Manager such documents as the Collateral Manager shall consider reasonably necessary to effect fully such assignment.

The Collateral Manager, its Affiliates and their respective members, principals, partners, managers, directors, officers, stockholders, partners, agents and employees will not be liable to the Co-Issuers, the Trustee, the Collateral Administrator, the Preference Share Paying Agent, the holders of the

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Offered Securities or any other person for any losses, claims, damages, demands, charges, judgments, assessments, costs or other liabilities incurred by the Co-Issuers, the Trustee, the Preference Share Paying Agent, the holders of the Offered Securities or any other Person that arise out of or in connection with the performance by the Collateral Manager of its duties under the Collateral Management Agreement or the Indenture, or for any decrease in the value of the Collateral; *provided* that the Collateral Manager shall be subject to liability: (i) by reason of acts or omissions of the Collateral Manager constituting bad faith, willful misconduct or gross negligence in the performance, or reckless disregard, of the obligations of the Collateral Manager under the Collateral Management Agreement and under the terms of the Indenture applicable to the Collateral Manager; or (ii) with respect to any representation or warranty made by the Collateral Manager regarding the information concerning the Collateral Manager provided by it for the inclusion in this Offering Circular which information is contained solely under the section entitled "Collateral Manager", such information containing any untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading (the occurrence of events described in either of clause (i) or (ii), a "Collateral Manager Breach"); *provided* that in no event shall the Collateral Manager or any of its Affiliates be liable for consequential, special, exemplary or punitive damages. Any stated limitations on liability shall not relieve the Collateral Manager from any responsibility it has under any state or Federal statutes.

Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager and its Affiliates. In certain circumstances, the interests of the Issuer and/or the holders of the Notes with respect to matters as to which the Collateral Manager is advising the Issuer may conflict with the interests of the Collateral Manager or its Affiliates. See "Risk Factors—Conflicts of Interest Involving the Collateral Manager".

Standard of Care

The Collateral Manager in performing its obligations under the Collateral Management Agreement will act in good faith and exercise reasonable care (i) using a degree of skill and attention no less than that which the Collateral Manager exercises with respect to comparable assets that it manages for itself and (ii) without limiting the foregoing, in a commercially reasonable manner consistent with its understanding of accepted practices and procedures applied by reasonable and prudent institutional managers of national standing in connection with the management of assets of the nature and the character of the Collateral Debt Securities and Eligible Investments.

Indemnification

The Issuer will agree to indemnify and hold harmless the Collateral Manager and its Affiliates (each, an "Indemnified Party") from and against any and all losses, claims, damages, judgments, assessments, costs or other liabilities, and will reimburse each such Indemnified Party for all reasonable fees and expenses (including reasonable fees and expenses of counsel) as such fees and expenses are incurred in investigating, preparing, pursuing or defending any claim, action, proceeding or investigation with respect to any pending or threatened litigation, caused by, or arising out of or in connection with, the issuance of the Offered Securities, the transactions contemplated by this Offering Circular, the Indenture or the Collateral Management Agreement, and/or any action taken by, or any failure to act by, the Collateral Manager or any of its Affiliates; *provided* that the Collateral Manager and its Affiliates will not be indemnified for any such losses, claims, damages, judgments, assessments, costs or other liabilities or any fees or expenses to the extent that they are incurred as a result of any acts or omissions constituting a Collateral Manager Breach. Any such indemnification by the Issuer will be paid subject to, and in accordance with, the Priority of Payments.

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The Collateral Manager will agree to indemnify and hold harmless the Issuer from and against any and all losses, claims, damages, demands, charges, judgments, assessments, costs or other liabilities, and will reimburse the Issuer from and against any and all reasonable fees and expenses (including reasonable fees and expenses of counsel) incurred in investigating, preparing, pursuing or defending any claim, action, proceeding or investigation with regard to any pending or threatened litigation, to the extent caused by, or arising out of (i) any acts or omissions of the Collateral Manager or any of its Affiliates constituting bad faith, willful misconduct or gross negligence in the performance, or reckless disregard, of the obligations of the Collateral Manager under the Collateral Management Agreement and under the terms of the Indenture applicable to the Collateral Manager or (ii) with respect to any representation or warranty made by the Collateral Manager regarding the information concerning the Collateral Manager provided by it for inclusion in this Offering Circular, which information is contained solely under the section entitled "Collateral Manager" herein, except for liability to which the Issuer would be subject by reason of bad faith, willful misconduct, gross negligence or reckless disregard of the obligations of the Issuer under the Collateral Management Agreement or under the Indenture or the Preference Share Paying Agency Agreement. The Collateral Manager shall not be liable for consequential, special, exemplary or punitive damages, and shall not be responsible for any action or omission of the Issuer, including (without limitation) in following or declining to follow any advice, recommendation or direction of the Collateral Manager, which advice, recommendation or direction does not constitute a Collateral Manager Breach and is not inconsistent with the Collateral Manager's obligations under the Collateral Management Agreement. For the avoidance of doubt, the Initial Purchaser will be indemnified by the Issuer pursuant to the Purchase Agreement.

Investment Guidelines

Pursuant to the Collateral Management Agreement, the Collateral Manager may acquire a Collateral Debt Security or enter into a derivative contract, in each case on behalf of the Issuer, only if (i) it complies with certain investment guidelines set forth in the Collateral Management Agreement or (ii) the Issuer (or the Collateral Manager on the Issuer's behalf) has received written advice of nationally recognized tax counsel in the United States that, taking into account the relevant facts and circumstances and the Issuer's other activities, the Issuer's acquisition, entry into, ownership, enforcement or disposition of the obligation or security will not cause the Issuer to be engaged in a trade or business within the United States for U.S. Federal income tax purposes or otherwise subject the Issuer to U.S. Federal tax on a net income basis. The Collateral Manager will be deemed to have complied with its obligation not to acquire securities or obligations the acquisition (including manner of acquisition), ownership, enforcement or disposition of which will cause the Issuer to be engaged in a U.S. trade or business for U.S. Federal income tax purposes, when it complies with the investment guidelines set forth in the Collateral Management Agreement. The Collateral Manager shall direct the Issuer and the Trustee to dispose of, in the open market or otherwise, any Equity Security or Defaulted Security, as provided in the Indenture.

Trademark

"Strategos" and "Kleros" are trademarks of Strategos which it has licensed to the Issuer to use solely for the limited purposes and limited duration set forth in the Collateral Management Agreement.

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COLLATERAL MANAGER

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

Strategos Capital Management, LLC

Strategos Capital Management, LLC (the "Collateral Manager") is a Delaware limited liability company formed on July 7, 2004. The Collateral Manager is a registered investment adviser regulated by the SEC. It is an Affiliate of Cohen & Company Securities, LLC, a broker-dealer that focuses on the financial services sector, and which is also the Placement Agent. The Collateral Manager is the collateral manager or the collateral advisor for Kleros Preferred Funding, Ltd., Kleros Preferred Funding II, Ltd., Libertas Preferred Funding I, Ltd., Kleros Real Estate CDO I, Ltd and Kleros Real Estate CDO II, Ltd (the "Strategos Managed CDOs"). The Collateral Manager 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 & Company Securities, 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 & Company Securities, LLC research department reports on the stocks of a diverse pool of financial institutions throughout the United States. Cohen & Company, LLC (previously named Cohen Brothers, 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 & Company Securities, LLC has acted and may continue to act as broker for the Collateral Manager to acquire the Collateral Debt Securities for the Issuer.

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

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

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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 & Company, LLC. Mr. Cohen is currently Chairman of Cohen & Company, 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 & Company, LLC. Mr. Cohen holds similar management positions in certain investment advisory subsidiaries and the broker-dealer subsidiary of Cohen & Company, 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 & Company, LLC as its Chief Executive Officer. Mr. Ricciardi holds similar management positions at the broker-dealer subsidiary of Cohen & Company, 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 & Company, 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 & Company, 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 & Company, 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 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 & Company, LLC in January 2005. Mr. Nathaniel serves as Chief Operating Officer of Strategos Capital Management, LLC. Prior to joining Cohen & Company, 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

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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 & Company, 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. Prior to joining Cohen & Company, 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 & Company, LLC as an Associate responsible for the development of CDO Technology and Analytics. Prior to joining Cohen & Company, 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 & Company, LLC in January 2006, focusing on CDO analytics and structuring. Prior to Cohen & Company, 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.

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Julie Cutler. Ms. Cutler joined Cohen & Company, LLC from Merrill Lynch as a Vice President in February 2006. Prior to joining Cohen & Company, 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 & Company, 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 & Company, 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 & Company, 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. 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 & Company, 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 & Company, 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 & Company, LLC. He joined the firm at its inception. Additional responsibilities at Cohen & Company, 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 & Company, LLC, Mr. Hohns was the Head of Marketing for iATMglobal, a division of

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

Rachael Fink. Ms. Fink joined Cohen & Company, LLC in June 2006. Ms. Fink serves as Corporate Counsel for Cohen & Company, LLC and certain of its Affiliates. Prior to joining Cohen & Company, 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 & Company, LLC in January 2006. Mr. Munley serves as Corporate Counsel for Cohen & Company, LLC and certain of its Affiliates. Prior to joining Cohen & Company, 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 & Company, 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 & Company, LLC. Prior to starting at Cohen & Company, 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

The following is a summary based on present law of certain Cayman Islands and U.S. Federal income tax considerations for prospective purchasers of the Notes, Combination Notes and Preference Shares. It addresses only purchasers that buy in the original offering at the original offering price, hold the Notes, Combination Notes or Preference Shares as capital assets and use the Dollar as their functional currency. The discussion is a general summary, it is not a substitute for tax advice. The discussion does not consider the circumstances of particular purchasers, some of which (such as banks, insurance companies, securities traders and dealers or persons holding the Notes, Combination Notes or Preference Shares as part of a hedge, straddle, conversion, integrated or constructive sale transaction) are subject to special tax regimes.

THE STATEMENTS ABOUT U.S. FEDERAL INCOME TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE OFFERED SECURITIES. NO TAXPAYER CAN RELY ON THEM TO AVOID U.S. FEDERAL TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN OFFERED SECURITIES UNDER THE LAWS OF THE CAYMAN ISLANDS, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

For purposes of this discussion, a "Holder" is a beneficial owner of a Note, a Combination Note or a Preference Share. A "U.S. Holder" is a Holder that is, for U.S. Federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation, partnership or other entity organized in or under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of a United States person and the primary supervision of a U.S. court or (iv) an estate the income of which is subject to U.S. Federal income taxation regardless of its source. A "Non-U.S. Holder" is any Holder other than a U.S. Holder.

Taxation of the Issuer

Cayman Islands Taxation

The Issuer will not be subject to income, capital, transfer, sales or franchise tax in the Cayman Islands. The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company. The Issuer has applied for and expects to obtain an undertaking from the Governor in Cabinet of the Cayman Islands in substantially the following form:

The Tax Concessions Law
(1999) Revision
Undertaking as to Tax Concessions

In accordance with Section 6 of the Tax Concession Law (1999 Revision) the Governor in Cabinet undertakes with Kleros Preferred Funding III, Ltd. (the "Issuer"):

(a) That no law which is hereinafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Issuer or its operations; and

(b) In addition, that no tax 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 Issuer; or

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(ii) by way of the withholding in whole or in part of any relevant payments 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 date of the concession].

Governor in Cabinet

U.S. Taxation

Freshfields Bruckhaus Deringer LLP, special U.S. Federal income tax counsel to the Issuer, believes that, although there is no authority directly addressing the U.S. Federal income tax treatment of a non-U.S. corporation engaging in similar activities, the Issuer will not be engaged in a trade or business within the United States for U.S. Federal income tax purposes except to the extent the Indenture permits investments in certain Equity Securities, certain Deliverable Obligations and equity securities received in an Offer issued by non-corporate entities that are so engaged until the same are disposed of in accordance with the Indenture. This opinion will be based on certain assumptions regarding the Issuer and this offering (including assumptions that the Issuer will operate in accordance with restrictions in the Administration Agreement, the Indenture, the Preference Share Paying Agency Agreement, the Collateral Administration Agreement, the form of the Investor Application Forms, the Collateral Management Agreement and the Hedge Agreement). Prospective investors should be aware that an opinion of counsel is not binding on the 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 will not take a position contrary to the conclusion expressed by counsel or that a court will not agree with the contrary position of the IRS if the matter were litigated.

As long as the Issuer conducts its affairs so that it is not engaged in a trade or business within the United States, its net income will not be subject to U.S. Federal income tax. Should the Issuer acquire Equity Securities, certain Deliverable Obligations or receive equity securities in an Offer issued by a non-corporate entity engaged in a U.S. trade or business, those investments should not cause the Issuer's income from other investments to become subject to net income tax in the United States. The Issuer also expects that payments received on the Collateral Debt Securities, the 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. There can be no assurance, however, that the Issuer's income will not become subject to net income or withholding taxes in the United States or other countries as the result of unanticipated activities by the Issuer, changes in law, contrary conclusions by relevant tax authorities or other causes. Income from Equity Securities or equity securities received in an Offer of U.S. issuers is likely to be subject to U.S. tax. The extent to which United States or other source country taxes may apply to the Issuer's income will depend on the actual composition of its assets. The imposition of unanticipated net income or withholding taxes could materially impair the Issuer's ability to pay principal, interest, Commitment Fee and other amounts on the Notes, to make distributions on the Preference Shares and to make payments on the Combination Notes.

Taxation of the Holders

Cayman Islands Taxation

No Cayman Islands withholding tax applies to payments on the Notes or the Combination Notes or to distributions on the Preference Shares. Holders are not subject to any income, capital, transfer, sales, or other taxes in the Cayman Islands in respect of their purchase, holding, or disposition of the Notes, Combination Notes or Preference Shares (except that (a) the Holder or the legal representative of such Holder whose Note is brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty under the laws of the Cayman Islands in respect of such Notes and (b) an instrument transferring title to a Note, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty).

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U.S. Taxation

Notes

Freshfields Bruckhaus Deringer LLP, special U.S. Federal income tax counsel to the Issuer, believes that the Class A Notes and the Class B Notes will and the Class C Notes should be treated as debt for U.S. Federal income tax purposes. The Issuer intends to treat all of the Notes as debt for such purposes, and the following discussion assumes that the Notes will be debt.

U.S. Holders. Interest paid on a Class A Note or Class B Note generally will be includible in the gross income of a U.S. Holder in accordance with its regular method of tax accounting. Because interest on a Class A Note or Class B Note is determined at a floating rate, it is treated as accruing at a hypothetical fixed rate equal to the value of the floating rate on the issue date. The amount of interest actually recognized for any accrual period will increase (or decrease), however, if the interest actually paid during the period is more (or less) than the amount accrued at the hypothetical fixed rate. U.S. Holders therefore generally will recognize income for each period equal to the amount paid during that period.

Because the Issuer has not determined that deferral of interest on the Class C Notes, Class D Notes and Class E Notes is a remote possibility, it will treat all interest on the Class C Notes, Class D Notes and Class E Notes as original issue discount ("OID"). A U.S. Holder must include OID in income on a constant yield to maturity basis whether or not it receives a cash payment on any payment date. Even if the likelihood of deferral were remote, a U.S. Holder must accrue OID on the principal amount (including accrued but undistributed OID) of any Class of Notes on which interest actually was deferred.

Interest and OID on the Notes will be ordinary income, and assuming the Issuer is not engaged in a U.S. trade or business, the interest and OID will generally be from sources outside the United States.

A U.S. Holder generally will recognize gain or loss on the disposition of a Note in an amount equal to the difference between the amount realized (excluding, in the case of the Class A Notes and Class B Notes, accrued but unpaid interest) and the U.S. Holder's adjusted tax basis in the Note. The gain or loss generally will be capital gain or loss from sources within the United States.

Non-U.S. Holders. Interest and Commitment Fee paid to a Non-U.S. Holder will not be subject to U.S. withholding tax as long as the Issuer is not engaged in a U.S. trade or business. Even if the Issuer were engaged in a U.S. trade or business, Commitment Fee might not be subject to U.S. withholding tax and interest paid to many Non-U.S. Holders would qualify for an exemption from withholding tax if the Holders certify their foreign status. Interest and Commitment Fee paid to a Non-U.S. Holder also will not be subject to U.S. Federal net income tax unless the interest is effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States. Gain realized by a Non-U.S. Holder on the redemption or disposition of a Note will not be subject to U.S. tax unless (i) the gain is effectively connected with the Holder's conduct of a U.S. trade or business or (ii) the Holder is an individual present in the United States for at least 183 days during the taxable year of disposition and certain other conditions are met.

Alternative Treatment. The U.S. Internal Revenue Service may challenge the treatment of the Notes, particularly the Class C Notes, Class D Notes and Class E Notes, as debt of the Issuer. If the challenge succeeded, a U.S. Holder of the affected Notes would be treated like a holder of Preference Shares that had not elected to treat the Issuer as a qualified electing fund, as described below.

Preference Shares

U.S. Holders. Subject to the passive foreign investment company rules and the controlled foreign corporation rules discussed below, a U.S. Holder generally must treat distributions received with respect to the Preference Shares as dividend income. Dividends will not be eligible for the dividends-received deduction allowable to corporations or for the preferential tax rate applicable to qualifying dividend

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income of individuals. For purposes of determining a U.S. Holder's foreign tax credit limitation, dividends received from a foreign corporation generally are treated as income from sources outside the United States. If U.S. Holders together hold at least half (by vote or value) of the Preference Shares and other interests treated as equity in the Issuer, however, a percentage of the dividend income equal to the proportion of the Issuer's income that comes from U.S. sources will be treated as income from sources within the United States. Except as otherwise required by the rules discussed below, gain or loss on the sale or other disposition of the Preference Shares will be capital gain or loss. Gain and loss realized by a U.S. Holder generally will be U.S. source income.

Passive Foreign Investment Company. The Issuer will be a passive foreign investment company (a "PFIC"). A U.S. Holder therefore will be subject to additional tax on excess distributions received on the Preference Shares or gains realized on the disposition of the Preference Shares. A U.S. Holder will have an excess distribution if distributions received on the Preference Shares during any tax year exceed 125% of the average amount received during the three preceding tax years (or, if shorter, the U.S. Holder's holding period). A U.S. Holder may realize gain for this purpose not only through a sale or other disposition, but also by pledging the Preference Shares as security for a loan or entering into certain constructive disposition transactions. To compute the tax on an excess distribution or any gain, (i) the excess distribution or gain is allocated ratably over the U.S. Holder's holding period, (ii) the amount allocated to the current tax year is taxed as ordinary income and (iii) the amount allocated to each previous tax year is taxed at the highest applicable marginal rate for that year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax. These rules effectively prevent a U.S. Holder from treating gain on the Preference Shares as capital gain.

A U.S. Holder of Preference Shares may wish to avoid the tax consequences just described by electing to treat the Issuer as a qualified electing fund ("QEF"). If the U.S. Holder makes a QEF election, the U.S. Holder will be required to include in gross income each year, whether or not the Issuer makes distributions, its pro rata share of the Issuer's net earnings. That income will be long-term capital gain to the extent of the U.S. Holder's pro rata share of the Issuer's net capital gains. The remainder will be ordinary income. Amounts recognized by a U.S. Holder making a QEF election generally are treated as income from sources outside the United States. If U.S. Holders together hold at least half (by vote or value) of the Preference Shares and other interests treated as equity in the Issuer, however, a percentage of those amounts equal to the proportion of the Issuer's income that comes from U.S. sources will be U.S. source income for the U.S. Holders. Because the U.S. Holder has already paid tax on them, amounts previously included in income will not be subject to tax when they are distributed to the U.S. Holder. An electing U.S. Holder's basis in the Preference Shares will increase by any amounts the holder includes in income currently and decrease by any amounts not subject to tax when distributed. The Issuer will provide holders of the Preference Shares with the information needed to make a QEF election.

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

A U.S. Holder that makes a QEF election may recognize income in amounts significantly greater than the distributions received from the Issuer. Income may exceed distributions when, for example, the Issuer uses earnings to repay principal on the Notes or accrues original issue discount or market discount on Collateral Debt Securities. Income also could exceed distributions if the Issuer must defer deductions for payments on Synthetic Securities or accrue income before it receives payments on Synthetic Securities. A U.S. Holder that makes a QEF election will be required to include in income currently its pro rata share of the earnings or discount whether or not the Issuer actually makes distributions. The holder may be able to elect to defer payment, subject to an interest charge for the deferral period, of the tax on income recognized on account of the QEF election. PROSPECTIVE PURCHASERS SHOULD

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CONSULT THEIR TAX ADVISORS ABOUT THE ADVISABILITY OF MAKING THE QEF AND DEFERRED PAYMENT ELECTIONS.

Controlled Foreign Corporation. The Issuer also may be a controlled foreign corporation (a "CFC") if U.S. Holders that each own (directly, indirectly or by attribution) at least 10% of the Preference Shares and any other interests treated as voting equity in the Issuer (each such U.S. Holder, a "10% U.S. Shareholder") together own more than 50% (by vote or value) of the Preference Shares and any other interests treated as equity in the Issuer. If the Issuer is a CFC for at least 30 consecutive days during its taxable year, a U.S. Holder that is a 10% U.S. Shareholder on the last day of the Issuer's taxable year must recognize ordinary income equal to its pro rata share of the Issuer's net earnings (including both ordinary earnings and capital gains) for the tax year whether or not the Issuer makes a distribution. That income may exceed distributions for the same reasons QEF inclusions may exceed distributions. The income will be treated as income from sources within the United States to the extent it is derived by the Issuer from U.S. sources. Earnings on which the U.S. Holder pays tax currently will not be taxed again when they are distributed to the U.S. Holder. A U.S. Holder's basis in its interest in the Issuer will increase by any amounts the holder includes in income currently and decrease by any amounts not subject to tax when distributed. If the Issuer is a CFC, (i) the Issuer would incur U.S. withholding tax on interest received from a related United States person, (ii) special reporting rules would apply to directors of the Issuer and certain other persons and (iii) certain other restrictions may apply. Subject to a special limitation for individual U.S. Holders that have held the Preference Shares for more than one year, gain from disposition of Preference Shares recognized by a U.S. Holder that is (or recently has been) a 10% U.S. Shareholder will be treated as dividend income to the extent earnings attributed to the Preference Shares accumulated while the U.S. Holder held the Preference Shares and the Issuer was a CFC. If the Issuer is a CFC, a 10% U.S. Shareholder will be subject to the CFC rules and not the PFIC rules and other U.S. Holders will be subject to the PFIC rules.

U.S. Holders generally must report, with their tax return for the tax year that includes the Closing Date, certain information relating to their purchase of the Preference Shares on IRS Form 926. **In the event a U.S. Holder fails to file any such required form, the U.S. Holder could be subject to a penalty equal to 10% of the gross amount paid for the Preference Shares subject to a maximum penalty equal to $100,000 (except in cases of intentional disregard).** A U.S. Holder may be required specifically to disclose any loss on the Preference Shares on its tax return under regulations on tax shelter transactions. When the U.S. Holder holds 10% of the shares in a CFC or QEF, the holder also must disclose any Issuer transactions reportable under the those regulations. The Issuer will provide holders of the Preference Shares with information about Issuer transactions reportable under those regulations. U.S. Holders are urged to consult their tax advisors about these and all other specific reporting requirements.

Non-U.S. Holders. Distributions to a Non-U.S. Holder of Preference Shares will not be subject to U.S. tax unless the distributions are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States. Gain realized by a Non-U.S. Holder on the sale or other disposition of the Preference Shares will not be subject to U.S. tax unless (i) the gain is effectively connected with the holder's conduct of a U.S. trade or business or (ii) the holder is an individual present in the United States for at least 183 days during the taxable year of disposition and certain other conditions are met.

Combination Notes

Although a Combination Note is a single instrument in form, the Issuer intends to treat Holders of Combination Notes as directly owning for U.S. Federal income tax purposes the related Note Component and the Preference Share Component attributable thereto. By acquiring a Combination Note, each Holder will agree to that treatment.

A Holder of Combination Notes should determine its tax basis in the underlying Notes and Preference Shares by allocating its purchase price between them in accordance with their relative fair

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market values on the purchase date. Payments on the Combination Notes should be treated as payments on the underlying Notes and Preference Shares to the extent properly attributable to related payments on the underlying Notes and Preference Shares. A sale or exchange of a Combination Note should be treated as a sale or exchange of the underlying Notes and Preference Shares, and the amount realized should be allocated between the underlying Notes and Preference Shares in accordance with their relative fair market values. The exchange of Combination Notes for the underlying Notes and Preference Shares should not be a taxable event. A Holder of Combination Notes should review the portions of this summary under the headings "Taxation of the Holders - U.S. Taxation - Notes" and "Taxation of the Holders - U.S. Taxation - Preference Shares."

Tax-Exempt U.S. Holders

Special considerations apply to pension plans and other investors that are subject to tax only on their unrelated business taxable income ("UBTI"). A tax-exempt investor's interest income and gain from the Notes, Combination Notes and Preference Shares generally would not be treated as UBTI *provided* such investor's investment in the Offered Securities is not debt-financed. However, a tax-exempt investor that owns more than 50% of the Preference Shares and also owns Notes should consider the possible application of the special UBTI rules for interest received from controlled entities. Each prospective tax-exempt investor should consult its own tax advisor regarding the tax consequences to it of an investment in the Notes, Combination Notes or Preference Shares.

U.S. Information Reporting and Backup Withholding

Payments of principal, interest and Commitment Fee on the Notes, distributions on the Preference Shares, payments on the Combination Notes and proceeds from the disposition of the Notes, Combination Notes or Preference Shares paid to a non-corporate Holder generally will be subject to U.S. information reporting. Payments to Non-U.S. Holders that provide certification of foreign status generally are exempt from information reporting. Backup withholding tax may apply to reportable payments unless the Holder provides a correct taxpayer identification number. Any amount withheld may be credited against a Holder's U.S. Federal income tax liability or refunded to the extent it exceeds the Holder's liability.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES, COMBINATION NOTES OR THE PREFERENCE SHARES UNDER THE INVESTOR'S OWN 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 ERISA ("ERISA Plans") and of entities whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entities. These duties include investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and liquidity needs and all of the facts and circumstances of the investment, including the availability of a public market for the investment. In addition, certain U.S. Federal, state and local laws impose similar duties on fiduciaries of governmental and/or church plans that are not subject to ERISA.

Any fiduciary of an ERISA Plan, of an entity whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entity, or of a governmental or church plan that is subject to fiduciary standards similar to those of ERISA ("plan fiduciary"), that proposes to cause such a plan or entity to purchase Offered Securities should determine whether, under the general fiduciary standards of ERISA or other applicable law, an investment in the Offered Securities is appropriate for such plan or entity. In determining whether a particular investment is appropriate for an ERISA Plan, U.S. Department of Labor regulations provide that the fiduciaries of an ERISA Plan must give appropriate consideration to, among other things, the role that the investment plays in the ERISA Plan's portfolio, taking into consideration whether the investment is designed reasonably to further the ERISA Plan's purposes, an examination of the risk and return factors, the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the ERISA Plan and the projected return of the total portfolio relative to the ERISA Plan's funding objectives. Before investing the assets of an ERISA Plan in Offered Securities, a fiduciary should determine whether such an investment is consistent with the foregoing regulations and its fiduciary responsibilities, including any specific restrictions to which such fiduciary may be subject.

Section 406(a) of ERISA and Section 4975 of the Code prohibit certain transactions ("prohibited transactions") involving the assets of ERISA Plans, plans described in 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.

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Each of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, each Hedge Counterparty and/or the Initial Purchaser as a result of its own activities or because of the activities of an affiliate, may be considered a Party In Interest or a Disqualified Person with respect to Plans. Accordingly, prohibited transactions within the meaning of Section 406 of ERISA and Section 4975 of the Code may arise if Offered Securities are acquired by a Plan with respect to which any of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Initial Purchaser, a Hedge Counterparty the obligors on the Collateral Debt Securities or any of their respective affiliates is a Party In Interest or Disqualified Person. In addition, if a Party In Interest or Disqualified Person with respect to a Plan owns or acquires a beneficial interest in the Issuer or the Co-Issuer, the acquisition or holding of Notes by or on behalf of the Plan could be considered to constitute an indirect prohibited transaction under ERISA or Section 4975 of the Code. Moreover, the acquisition or holding of Offered 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. However, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally provide a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between plans and persons that are Parties in Interest or Disqualified Persons solely by reason of providing services to such plans or that are related to such service providers, provided generally that such persons are not plan fiduciaries and certain other conditions are satisfied; and this exemption may apply to the acquisition and holding of Notes by Benefit Plan Investors. Certain administrative exemptions from the prohibited transaction rules could be applicable, moreover, 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 Offered 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 "DOL"), the government agency primarily responsible for administering the ERISA fiduciary rules and the prohibited transaction rules under ERISA and the Code, has issued a regulation (the "Plan Asset Regulation," codified at 29 C.F.R. § 2510.3-101) that specifies the circumstances under which the underlying assets of an entity are treated for purposes of ERISA as assets of a plan, and are subject to the fiduciary provisions of ERISA, including the prohibited transaction provisions of ERISA, and the prohibited transaction provisions of the Code, by reason of the plan's investment in the entity. The Pension Protection Act of 2006 recently enacted Section 3(42) of ERISA, which confirms the DOL's authority to issue the Plan Asset Regulation but imposes certain modifications on the terms of the Plan Asset Regulation as originally adopted by the DOL.

Under specified circumstances, ERISA requires plan fiduciaries, and entities with certain specified relationships to a plan, to "look through" investment vehicles (such as the Issuer) in which a plan invests and treat as an "asset" of the plan each underlying investment made by such investment vehicle. ERISA provides, however, that if equity participation in any entity by "Benefit Plan Investors" is

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not significant then the "look-through" rule will not apply to such entity. The term "Benefit Plan Investor" is defined in Section 3(42) of ERISA to include (1) any employee benefit plan that is subject to part 4 of Title I of ERISA, (2) any plan that is subject to Section 4975(e)(1) of the Code, and (3) any entity whose underlying assets include plan assets by reason of a plan's investment in the entity. Equity participation by Benefit Plan Investors in an entity is significant if, immediately after the most recent acquisition of any equity interests in the entity, 25% or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, exercising control over the assets of the entity or providing investment advice with respect to such assets for a fee, direct or indirect (such as the Collateral Manager), or any affiliates (within the meaning of the Plan Asset Regulation) of such persons (any such person, a "Controlling Person")) is held by Benefit Plan Investors (the "25% Threshold"). Under the Plan Asset Regulation as currently in effect, an equity interest is any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and that has no substantial equity features. Section 3(42) of ERISA provides that an entity is considered to hold plan assets only to the extent of the percentage of the equity interest held by benefit plan investors.

There is little pertinent authority in this area. Although the issue is not free from doubt, on the date of issuance, it is not anticipated that the Class A-1 Notes, the Class A-2 Notes and the Class B Notes will constitute "equity interests" (for purposes of the Plan Asset Regulation) in the Co-Issuers. Based primarily on the investment-grade rating of the Class C Notes, the unconditional obligation of the Co-Issuers to repay principal and accrued interest by a fixed maturity date and the creditors' remedies available to holders of the Class C Notes on the date of issuance, it is anticipated that the Class C Notes should not constitute "equity interests" (for purposes of the Plan Asset Regulation) in the Co-Issuers, despite their subordinated position in the capital structure of the Co-Issuers. Accordingly, no measures (such as those described below with respect to the Class D Notes and Class E Notes and 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 Class D Notes and Class E Notes will be treated as equity interests for purposes of the Plan Asset Regulation. Accordingly, the Issuer intends to prohibit the acquisition of interests in the Class D Notes and Class E Notes by Benefit Plan Investors. Interests in the Class D Notes and Class E 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 constitutes "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 an interest in a Class D Note or Class E Note will be deemed to represent that it is not a Benefit Plan Investor and that it will not transfer such interest except in compliance with the transfer restrictions set forth in the Indenture, including the requirement that the transferee is not a Benefit Plan Investor (including for this purpose, an insurance company general account any of the underlying assets of which constitutes "plan assets" under Section 401(c) of ERISA (and a wholly owned subsidiary of such a general account)). Interests in the Class D Notes or Class E Notes may be purchased by an insurance company's general account (and a wholly owned subsidiary of such a general account), but only if no portion of the underlying assets of its "general account" (as determined by such insurance company) constitute "plan assets" under Section 401(c) of ERISA. As of any later date on which any Person purchases any of the Class D Notes or Class E Notes, if the holder of a beneficial interest in a Class D Note or Class E Note is a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitutes "plan assets" under Section 401(c) of ERISA (and a wholly owned subsidiary of such

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a general account), then such holder is required to dispose of the Class D Notes or Class E Notes then held by it before the end of the next calendar quarter. (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 (excluding the Preference Shares held by Controlling Persons) by prohibiting the transfer of Preference Shares to Benefit Plan Investors or Controlling Persons after the Closing Date. No interest in a Preference Share sold in reliance on Regulation S may be sold to a Benefit Plan Investor or a Controlling Person. No interest in a Regulation S Preference Share may thereafter be transferred to a Benefit Plan Investor or a Controlling Person. Each Original Purchaser and each transferee of an interest in a Regulation S Global Preference Share will be required to deliver a letter in the form of Exhibit A hereto. Each Original Purchaser of Restricted Definitive Preference Shares from the Issuer or the Initial Purchaser will be required to certify in the Investor Application Form pursuant to which such Preference Shares are purchased whether or not it is a Benefit Plan Investor or a Controlling Person. No subsequent transferee of a Restricted Definitive Preference Share may be a Benefit Plan Investor or a Controlling Person. Any subsequent transferee that acquires Restricted Definitive Preference Shares will be required to represent as to similar matters in the transfer certificate delivered to the Issuer and the Preference Share Registrar in connection with such transfer. In particular, each owner of an interest in a Restricted Definitive Preference Share will be required to execute and deliver to the Issuer and the Preference Share Registrar a transfer certificate in the form attached as an exhibit to the Preference Share Paying Agency Agreement to the effect that such owner will, prior to any sale, pledge or other transfer by it of any Definitive Preference Share (or any interest therein), obtain from the transferee a duly executed transferee certificate in the form attached to the Preference Share Paying Agency Agreement, and such other certificates and other information as the Issuer or the Preference Share Paying Agent may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions contained in the Preference Share Documents.

However, there can be no assurance that ownership of Preference Shares by Benefit Plan Investors will always remain below the 25% threshold established under the Plan Asset Regulation. There can be no assurance, moreover, that Benefit Plan Investors will not in fact acquire beneficial interests in the Class D Notes and Class E Notes. In addition, although each owner will be required to indemnify the Issuer for the consequences of any breach of its representations or obligations with respect to the foregoing ERISA restrictions, there can be no assurance that an owner will not breach such representations or obligations or that, if such breach occurs, such owner will have the financial capacity and willingness to indemnify the Issuer for any losses that the Issuer may suffer.

If 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 Class D Notes, Class E 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

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Section 404(b) of ERISA, which generally provides that no fiduciary may maintain the indicia of ownership of any assets of a plan outside the jurisdiction of the district courts of the United States, would be satisfied or any of the exceptions to this requirement set forth in 29 C.F.R. Section 2550.404b-1 would be available.

In addition, it should be noted that, if Class A-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes are acquired by a Plan with respect to which a holder of a Class D Note, Class E 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-1 Notes, Class A-2 Notes, Class B Notes or Class C Notes were subject to one or more statutory, regulatory, or administrative exemptions from the prohibited transaction rules of ERISA and Section 4975 of the Code. In this regard, each Plan, and each Person investing plan assets, that purchases Class A-1 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-1 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 Offered Security to a Plan is in no respect a representation by the Issuer, the Initial Purchaser or any of their affiliates that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for a Plan generally or any particular Plan.

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A NOTE OR ANY INTEREST THEREIN (OTHER THAN A CLASS D NOTE OR CLASS E NOTE) WILL BE REQUIRED TO CERTIFY (OR IN CERTAIN CIRCUMSTANCES DEEMED TO REPRESENT AND WARRANT) EITHER THAT (A) IT IS NOT (AND FOR SO LONG AS IT HOLDS ANY 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 INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (B) ITS ACQUISITION AND HOLDING OF SUCH NOTE WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION IN VIOLATION OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW).

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A CLASS D NOTE OR CLASS E NOTE OR ANY INTEREST THEREIN IS DEEMED TO REPRESENT AND WARRANT THAT SUCH HOLDER IS NOT (AND FOR SO LONG AS IT HOLDS A CLASS D NOTE OR CLASS E NOTE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS A CLASS D NOTE OR CLASS E NOTE OR ANY INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR AS DEFINED IN SECTION 3(42) OF ERISA.

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A CLASS D NOTE OR CLASS E NOTE OR AN INTEREST THEREIN WILL BE DEEMED TO REPRESENT THAT SUCH OWNER WILL NOT TRANSFER SUCH INTEREST EXCEPT IN COMPLIANCE WITH THE TRANSFER RESTRICTIONS SET FORTH IN THE INDENTURE INCLUDING THE REQUIREMENT THAT NO CLASS D NOTE OR CLASS E NOTE OR AN INTEREST THEREIN MAY BE TRANSFERRED TO A BENEFIT PLAN INVESTOR.

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EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A RESTRICTED DEFINITIVE PREFERENCE SHARE OR AN INTEREST THEREIN WILL BE REQUIRED TO CERTIFY WHETHER OR NOT IT IS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON. NO TRANSFER OF RESTRICTED DEFINITIVE PREFERENCE SHARE WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER IF, AFTER GIVING EFFECT TO SUCH TRANSFER, 25% OR MORE OF THE PREFERENCE SHARES (DISREGARDING THE PREFERENCE SHARES HELD BY CONTROLLING PERSONS) WOULD BE HELD BY BENEFIT PLAN INVESTORS. NO REGULATION S GLOBAL PREFERENCE SHARE OR AN INTEREST THEREIN MAY BE ACQUIRED BY OR TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON. EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF AN INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE WILL BE REQUIRED TO EXECUTE A LETTER IN THE FORM OF EXHIBIT A TO THIS OFFERING CIRCULAR AND AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT TO THE EFFECT THAT SUCH OWNER WILL NOT TRANSFER SUCH INTEREST EXCEPT IN COMPLIANCE WITH THE TRANSFER RESTRICTIONS SET FORTH IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT (INCLUDING THE REQUIREMENT THAT NO REGULATION S GLOBAL PREFERENCE SHARES MAY BE TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, AND THE REQUIREMENT THAT ANY SUBSEQUENT TRANSFEREE EXECUTE AND DELIVER SUCH LETTER TO THE ISSUER AND THE PREFERENCE SHARE PAYING AGENT AS A CONDITION TO ANY SUBSEQUENT TRANSFER). NO REGULATION S GLOBAL PREFERENCE SHARES MAY BE TRANSFERRED TO A TRANSFEREE WHICH IS ACQUIRING AN INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE UNLESS SUCH TRANSFEREE EXECUTES A LETTER IN THE FORM OF EXHIBIT A TO THIS OFFERING CIRCULAR AND AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT. NO RESTRICTED DEFINITIVE PREFERENCE SHARE MAY BE ACQUIRED BY OR TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON OTHER THAN ON THE CLOSING DATE AND ONLY TO THE EXTENT THAT, 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 RESTRICTED DEFINITIVE PREFERENCE SHARE THAT IS A BENEFIT PLAN INVESTOR OR A GOVERNMENTAL OR CHURCH PLAN SUBJECT TO 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 SUCH SIMILAR LAW).

ANY PLAN FIDUCIARY THAT PROPOSES TO CAUSE A PLAN TO PURCHASE OFFERED SECURITIES SHOULD CONSULT WITH ITS OWN LEGAL AND TAX ADVISORS WITH RESPECT TO THE POTENTIAL APPLICABILITY OF ERISA AND THE CODE TO SUCH INVESTMENTS, THE CONSEQUENCES OF SUCH AN INVESTMENT UNDER ERISA AND THE CODE AND THE ABILITY TO MAKE THE REPRESENTATIONS DESCRIBED ABOVE. MOREOVER, EACH PLAN FIDUCIARY SHOULD DETERMINE WHETHER, UNDER THE GENERAL FIDUCIARY STANDARDS OF ERISA, AN INVESTMENT IN THE OFFERED SECURITIES IS APPROPRIATE FOR THE PLAN, TAKING INTO ACCOUNT THE OVERALL INVESTMENT POLICY OF THE PLAN AND THE COMPOSITION OF THE PLAN'S INVESTMENT PORTFOLIO. NO TRANSFER OF A PREFERENCE SHARE WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE PAYING AGENT WILL RECOGNIZE

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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 Offered 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, the Initial Purchaser and Cohen & Company Securities, LLC, in its capacity as placement agent (the "Placement Agent"), will enter into a Securities Purchase Agreement (the "Purchase Agreement") relating to the purchase and sale of the Offered Securities to be delivered on the Closing Date. The Offered Securities will be offered by the Initial Purchaser to prospective investors from time to time in individually negotiated transactions at varying prices to be determined at the time of sale. The Initial Purchaser reserves the right to withdraw, cancel, or modify such offer and to reject orders in whole or in part. The Initial Purchaser's responsibility is limited to a "reasonable efforts" basis in placing the Offered Securities, with no understanding, express or implied, on the part of the Initial Purchaser of a commitment by the Initial Purchaser, whether as principal or agent, to purchase or place the Offered Securities. The Placement Agent shall have no obligation to place any of the Offered Securities. The obligations of the Initial Purchaser under the Purchase Agreement are subject to the satisfaction of certain conditions set forth in the Purchase Agreement. Pursuant to the Purchase Agreement, each of the Co-Issuers will agree to indemnify the Initial Purchaser 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 Securities are offered when, as and if issued by the Co-Issuers, subject to prior sale or withdrawal, cancellation or modification of the offer without notice and subject to approval of certain legal matters by counsel and certain other conditions.

Each Original Purchaser of a Preference Share will be required to execute and deliver an Investor Application Form in form and substance satisfactory to the Initial Purchaser and the Issuer.

The Co-Issuers have been advised by the Initial Purchaser and the Placement Agent that the Initial Purchaser and the Placement Agent, respectively, propose to sell the Offered Securities (a) in the United States in reliance upon an exemption from the registration requirements of the Securities Act to Qualified Purchasers who are also either (i) Qualified Institutional Buyers or (ii) Accredited Investors and (b) outside the United States to persons who are not U.S. persons (as defined in Regulation S) in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act and, in each case, in accordance with applicable laws.

CERTAIN SELLING RESTRICTIONS

United States

The Offered Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except pursuant to an exemption from the registration requirements under the Securities Act.

(1) In the Purchase Agreement, each of the Initial Purchaser and the Placement Agent will represent and agree that it has not offered or sold Offered Securities and will not offer or sell Offered Securities except to persons who are not U.S. Persons in accordance with Rule 903 of Regulation S or as provided in paragraph (2) below. Accordingly, 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 Securities, 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 Securities in the United

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States other than Offered Securities in registered form bearing a restrictive legend thereon, and it will not, acting either as principal or agent, offer, sell, reoffer or resell any of such Offered Securities (or approve the resale of any of such Offered Securities):

(a) except (1) inside the United States through a U.S. broker dealer that is registered under the Exchange Act to investors each of which the Initial Purchaser or the Placement Agent, as the case may be, reasonably believes is a Qualified Institutional Buyer or an Accredited Investor that has such knowledge and experience in financial and business matters that it is capable of evaluating and bearing the risks of investing in the Offered Securities or is represented by a fiduciary or agent with sold investment discretion having such knowledge and experience) that (in each of the foregoing cases) is also a Qualified Purchaser or (2) otherwise in accordance with the restrictions on transfer set forth in such Offered Securities, the Purchase Agreement and this Offering Circular; or

(b) by means of any form of general solicitation or general advertisement, including but not limited to (1) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio and (2) any seminar or meeting whose attendees have been advised by any general solicitation or general advertising.

Prior to the sale of any Offered Securities in registered form bearing a restrictive legend thereon, the Initial Purchaser 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 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 to an Accredited Investor it has taken or will take reasonable steps to ensure that the purchaser is aware that the Offered Securities have not been and will not be registered under the Securities Act and that transfers of Offered Securities are restricted as set forth herein.

United Kingdom

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 Securities 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 Securities 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 Offered Securities.

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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 Offered Securities or the possession, circulation or distribution of the Preliminary Offering Circular, this Offering Circular or any other material relating to the Issuer or the Offered Securities in any country or jurisdiction where action for that purpose is required. Accordingly, the Offered Securities may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Offered Securities may be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Purchasers of the Offered Securities may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the purchase price.

Purchasers of the Offered Securities will be required, as a condition to payment of amounts on the Offered Securities without the imposition of withholding tax, to provide certain certifications with respect to any applicable taxes or reporting requirements of the United States or the Cayman Islands.

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TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes or Preference Shares.

Investor Representations on Initial Purchase. Each Original Purchaser of Notes (or any beneficial interest therein) will be deemed to acknowledge, represent and warrant to and agree with the Co-Issuers and the Initial Purchaser, and each Original Purchaser of Preference Shares (or any beneficial interest therein) will be required in an Investor Application Form to acknowledge, represent and warrant to and agree with the Issuer and the Initial Purchaser as follows:

(1) *No Governmental Approval*. The purchaser understands that the Offered Securities have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular. The purchaser further understands that any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer*. Each purchaser of a Note (if required by the Indenture) and each purchaser of Preference Shares will, prior to any sale, pledge or other transfer by it of any such Offered Security (or any interest therein), obtain from the transferee and deliver to the Issuer and the Note Registrar (in the case of a Note) or the Preference Share Registrar (in the case of a Preference Share) a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture or the Preference Share Paying Agency Agreement, as the case may be, and such other certificates and other information as the Issuer, the Trustee (in the case of the Notes) or the Preference Share Registrar (in the case of the Preference Shares) may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular and the Indenture or the Preference Share Documents.

(3) *Minimum Denominations*. The purchaser agrees that no Offered Security (or any interest therein) may be sold, pledged or otherwise transferred in a denomination of less than the applicable minimum denomination set forth in the Indenture (in the case of the Notes) or the Preference Share Documents (in the case of the Preference Shares).

(4) *Securities Law Limitations on Resale*. The purchaser understands that the Offered Securities have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons unless they are registered under the Securities Act or unless an exemption from registration is available. Accordingly, the certificates representing the Offered Securities will bear a legend stating that the Offered Securities have not been registered under the Securities Act and setting forth certain of the restrictions on transfer of the Offered Securities described herein. The purchaser understands that neither the Issuer nor (in the case of the Notes) the Co-Issuer has any obligation to register any of the Offered Securities under the Securities Act or to comply with the requirements for any exemption from the registration requirements of the Securities Act (other than to supply information specified in Rule 144A(d)(4) of the Securities Act as required by the Indenture and the Preference Share Documents).

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

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(6) *Qualified Institutional Buyer, Accredited Investor or Non-U.S. Person Status; Investment Intent*. In the case of a purchaser who takes delivery of the Offered Securities in the form of a Restricted Global Note (or interest therein) or a Restricted Definitive Preference Share, it is (a) a Qualified Institutional Buyer or (b) an Accredited Investor and is acquiring the Offered Securities 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 Regulation S Notes or Regulation S Preference Shares, (i) it is not a U.S. Person and is purchasing such Note or Preference Share for its own account and not for the account or benefit of a U.S. Person and (ii) it understands that (A) interests in a Regulation S Global Note and a Regulation S Global Preference Share may only be held through Euroclear or Clearstream, Luxembourg, (B) in the case of Regulation S Preference Shares, delivery may be made only in accordance with the certification requirements set forth in the Preference Share Documents and the Preference Share Paying Agency Agreement and (C) if in the future it decides to transfer interests held in such Regulation S Global Note or Regulation S Global Preference Share, it will transfer the interest in such Regulation S Global Note or Regulation S Global Preference Share to a person that is not a U.S. Person only in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Note or a Restricted Definitive Preference Share.

(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 Offered Securities, (b) is financially able to bear such risk, (c) in making such investment is not relying on the advice or recommendations of any of the Initial Purchaser, the Issuer, the Co-Issuer, the Collateral Manager or any of their respective affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in Offered Securities is suitable and appropriate for it. The purchaser has received, and has had an adequate opportunity to review the contents of, this Offering Circular. The purchaser has had access to such financial and other information concerning the Issuer and the Offered Securities as it has deemed necessary to make its own independent decision to purchase Offered Securities, including the opportunity, at a reasonable time prior to its purchase of Offered Securities, to ask questions and receive answers concerning the Issuer and the terms and conditions of the offering of the Offered Securities. The purchaser acknowledges that it is aware that the Collateral Management Agreement and the Indenture authorize the Collateral Manager to cause the Issuer to purchase Collateral Debt Securities from, and sell Collateral Debt Securities to, the Collateral Manager, its Affiliates and funds managed by the Collateral Manager or its Affiliates and the purchaser consents to such purchases and sales; *provided* that they are carried out in compliance with the provisions of the Collateral Management Agreement and the Indenture.

(8) *Certain Resale Limitations*. The purchaser is aware that no Offered Securities (or any interest therein) may be offered, sold, pledged or otherwise transferred to (a) a transferee acquiring a Restricted Global Note (or interest therein) or Restricted Definitive Preference Share except (i)(A) to a transferee whom the seller reasonably believes is a Qualified Institutional Buyer purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and that is a Qualified Purchaser or (B) solely in the case of a Restricted Definitive Preference Share, in accordance with another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (ii) to a transferee that is a Qualified Purchaser, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) in the case of a transfer of an interest in a Preference Share (other than the transfer of a Restricted Definitive Preference Share to an Original Purchaser) to a transferee who is neither a Benefit Plan Investor nor a Controlling Person, (v) in compliance with the certification (if any) and other requirements

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set forth in the Indenture or the Preference Share Documents and (vi) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (b) a transferee acquiring an interest in a Regulation S Note or a Regulation S Preference Share except (i) to a transferee that is acquiring such interest in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (ii) to a transferee that is not a U.S. Person, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) in the case of any transfer of an interest in a Preference Share, to a transferee who is neither a Benefit Plan Investor nor a Controlling Person, (v) in compliance with the certification (if any) and other requirements set forth in the Indenture or the Preference Share Documents and (vi) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(9) *Limited Liquidity*. The purchaser understands that there is no market for any Class of Offered Securities and that no assurance can be given as to the liquidity of any trading market for such Class of Offered Securities or that a trading market for such Class of Offered Securities will develop. It further understands that, although the Initial Purchaser may from time to time make a market in a Class of Offered Securities, the Initial Purchaser is not under any obligation to do so and, following the commencement of any market-making, may discontinue the same at any time. Accordingly, the purchaser must be prepared to hold such Offered Securities for an indefinite period of time or until their maturity.

(10) *Investment Company Act*. The purchaser either (a) is not a U.S. Person or (b) is a Qualified Purchaser. The purchaser agrees that no sale, pledge or other transfer of a Note or Preference Share (or any interest therein) may be made (a) to a transferee acquiring Restricted Notes (or any interest therein) or Restricted Preference Shares except to a transferee that is a Qualified Purchaser, (b) to a transferee acquiring an interest in a Regulation S Note or a Regulation S Preference Share that is not a U.S. Person in an offshore transaction in accordance with Regulation S or (c) if such transfer would have the effect of requiring either of the Co-Issuers or the Collateral to register as an investment company under the Investment Company Act. If the purchaser is a U.S. Person that is an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an "excepted investment company"): (x) all of the beneficial owners of outstanding securities (other than short-term paper) of such entity (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 ("pre-amendment beneficial owners"); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities of such entity, have consented to such entity's treatment as a Qualified Purchaser in accordance with the Investment Company Act.

(11) *ERISA*. In the case of a purchaser of a Note (other than a Class D Note or Class E Note) or an Original Purchaser of a Restricted Definitive Preference Share, either (a) it is not (and for so long as it holds any such Note, Preference Share or any interest therein will not be) a Benefit Plan Investor or a governmental or church plan, 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 Class D Note or Class E Note, the purchaser is not, and is not acting on behalf of a Benefit Plan Investor. Each Original Purchaser and each transferee of an interest in a Class D Note or Class E Note will be deemed to represent that it is not a Benefit Plan Investor and that it will not transfer such interest except in compliance with the transfer restrictions set forth in the Indenture including the requirement that the transferee is not a Benefit Plan Investor, including for this purpose, an insurance company general account any of whose assets constitute "plan assets" under Section 401(c) of ERISA and a wholly owned subsidiary of such a general account). In the case of a

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purchaser of Class D Note or Class E Notes that is an insurance company, if the source of funds used to purchase the Class D Note or Class E 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 an Original Purchaser of a Restricted Definitive Preference Share that purchases from the Issuer or the Initial Purchaser, except as otherwise disclosed in the Investor Application Form, either (a) the purchaser is not a Benefit Plan Investor or a Controlling Person or (b) its purchase and ownership of such Restricted Definitive Preference Share will not constitute a non-exempt prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code or a non-exempt violation of Similar Law. Each purchaser of a Preference Share understands and agrees that no sale, pledge or other transfer of a Preference Share (or any interest therein) after the Closing Date may be made to a Benefit Plan Investor or a Controlling Person.

Each Original Purchaser acquiring an interest in a Regulation S Global Preference Share will be required to execute and deliver to the Issuer and the Preference Share Paying Agent a letter substantially in the form attached as Exhibit A hereto which includes a representation that such Original Purchaser is not a Benefit Plan Investor or a Controlling Person and will not transfer such interest except as otherwise in compliance with the transfer restrictions set forth in the Preference Share Paying and Transfer Agency Agreement (including the requirement that any subsequent transferee execute and deliver such a letter to the Issuer and the Preference Share Paying Agent in the form attached as Exhibit A hereto which will include a representation to the effect that such transferee is not a Benefit Plan Investor or a Controlling Person).

A Benefit Plan Investor is any employee benefit plan that is subject to part 4 of Title I of ERISA, any plan subject to Section 4975 of the Code, and any entity whose underlying assets include plan assets by reason of a plan's investment in such entity for purpose of ERISA; and includes the general account of an insurance company, any of whose assets constitute plan assets under Section 401(c) of ERISA, and a wholly-owned affiliate thereof. A Controlling Person is a person other than a Benefit Plan Investor who has discretionary authority or control with respect to the assets of the Issuer, or who provides investment advice with respect to such assets for a fee, direct or indirect, or an affiliate of any such person.

(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 Offered Securities (including its investment in all Classes of Notes and the Preference Shares) exceeds 40% of the total assets (determined on a consolidated basis with its subsidiaries) of the purchaser; (ii) any Person owning any equity or similar interest in the purchaser has the ability to control any investment decision of the purchaser or to determine, on an investment-by-investment basis, the amount of such Person's contribution to any investment made by the purchaser; (iii) the purchaser was organized or reorganized for the specific purpose of acquiring any Offered Securities or (iv) additional capital or similar contributions were specifically solicited from any Person owning an equity or similar interest in the purchaser for the purpose of enabling the purchaser to purchase Offered Securities. A "Qualifying Investment Vehicle" is an entity as to which all of the beneficial owners of any securities issued by such entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Issuer or the Co-Issuers, as the case may be, and the 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,

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the Indenture or the Preference Share Documents (in the case of the Preference Shares) required to be made upon transfer of any Offered Securities (with modifications to such representations satisfactory to the Issuer to reflect the indirect nature of the interests of such beneficial owners in such Notes or Preference Shares, including any modification permitting an initial beneficial owner of securities issued by such entity to represent that it is an Accredited Investor).

If the purchaser is a U.S. Person that is a Qualifying Investment Vehicle, (a) either (i) none of the beneficial owners of its securities is a U.S. Person or (ii) some or all of the beneficial owners of its securities are U.S. Persons and each such beneficial owner has certified to the purchaser that it is a Qualified Purchaser and (b) the purchaser has only one class of securities outstanding (other than any nominal share capital the distributions in respect of which are not correlated to or dependent upon distributions on, or the performance of, the Offered Securities).

(13) *Certain Transfers Void.* The purchaser agrees that (a) any sale, pledge or other transfer of an Offered Security (or any interest therein) made in violation of the transfer restrictions contained in this Offering Circular and in the Indenture or the Preference Share Documents, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, will be void and of no force or effect and (b) none of the Issuer, the Trustee (in the case of the Notes), the Note Registrar (in the case of the Notes) and the Preference Share Paying Agent (in the case of the Preference Shares) has any obligation to recognize any sale, pledge or other transfer of an Offered Security (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

The purchaser of a 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 (unless such beneficial owner is an Accredited Investor that purchased such Restricted Note (or any interest therein) directly from the Co-Issuers or the Initial Purchaser) and also a Qualified Purchaser, then either of the Co-Issuers 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, the Trustee, on behalf of and at the expense of the Issuer, shall 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 Preference Share acknowledges that the Preference Share Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner or holder of a Preference Share (other than an Original Purchaser of a Restricted Definitive Preference Share) is a Benefit Plan Investor or a Controlling Person, or that an

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Original Purchaser did not disclose in an Investor Application Form, purchaser letter in the form of Exhibit A or a transfer certificate in the form attached to the Preference Share Paying Agency Agreement delivered to the Issuer at the time of its acquisition of such Preference Share or beneficial interest in such Preference Share that it is a Benefit Plan Investor or a Controlling Person (or, in the case of Regulation S Global Preference Shares, represented that it was not a Benefit Plan Investor or a Controlling Person but actually was a Benefit Plan Investor or a Controlling Person) or, subsequent to the purchase of a Preference Share, any beneficial owner is or has become a Benefit Plan Investor or a Controlling Person (including insurance company general accounts with assets constituting plan assets), then the Issuer shall require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest in or to such Preference Shares (or interest therein) to a Person that is (1) in the case of a person holding Restricted Definitive Preference Shares (A) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Restricted Definitive Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (B) a Qualified Purchaser and (C) not a Benefit Plan Investor or a Controlling Person or (2) in the case of a person holding its interest through a Regulation S Global Preference Share or a person holding Regulation S Definitive Preference Shares, neither (A) a U.S. Person nor (B) a Benefit Plan Investor or a Controlling Person, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner or holder fails to effect the transfer required within such 30-day period, (I) upon direction from the Collateral Manager or the Issuer, the Preference Share Registrar (on behalf of and at the expense of the Issuer) shall cause such beneficial owner's or holder's interest in such Preference Shares to be transferred to a person that is eligible to own such Preference Shares 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. 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) *Tax Treatment.* The purchaser acknowledges that it is its intent as well as the intent of the Issuer to treat the Notes as indebtedness of the Issuer and the Preference Shares as equity in the Issuer for U.S. Federal and, to the extent permitted by law, state and local income and franchise tax purposes. The purchaser further agrees to report all income (or loss) in accordance with such treatment and not to take any action inconsistent with such treatment, except as otherwise required by any relevant taxing authority.

(16) If it is not a "United States person" as defined in Section 7701(a)(30) of the Internal Revenue Code of 1986, as amended, it is not acquiring a Note or Preference Share as part of a plan to reduce, avoid or evade U.S. federal income taxes owed, owing or potentially owed or owing.

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(17) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuer, the Initial Purchaser, the Trustee, the Collateral Manager and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements and agrees that, if any of the acknowledgments, representations or warranties made or deemed to have been made by it in connection with its purchase of the Offered Securities are no longer accurate, the purchaser will promptly notify the Issuer and the Initial Purchaser.

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

(19) *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"), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. NEITHER OF THE CO-ISSUERS NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT").
>
> NO TRANSFER OF A NOTE (OR ANY INTEREST THEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. PERSON THAT IS NOT BOTH (X) A QUALIFIED INSTITUTIONAL BUYER AND ALSO (Y) EITHER (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 OF THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE SUCH QUALIFIED PURCHASERS AND/OR KNOWLEDGEABLE EMPLOYEES (EACH OF (I), (II) AND (III), A "QUALIFIED PURCHASER"), (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE CO-ISSUERS OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A U.S. PERSON THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE (IF ANY) ATTACHED AS AN EXHIBIT TO THE INDENTURE REFERRED TO HEREIN. EACH HOLDER OF THIS NOTE OR A BENEFICIAL INTEREST IN THIS NOTE IS REQUIRED TO CERTIFY (OR IN CERTAIN CIRCUMSTANCES IS

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DEEMED TO REPRESENT AND WARRANT) [EITHER (A) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR OR A GOVERNMENTAL OR CHURCH PLAN ("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 THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE. A "BENEFIT PLAN INVESTOR" IS ANY EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF ERISA, ANY PLAN SUBJECT TO SECTION 4975 OF THE CODE, AND ANY ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED TO INCLUDE ASSETS OF ANY SUCH PLAN BY REASON OF SUCH A PLAN'S INVESTMENT IN SUCH ENTITY FOR PURPOSES OF ERISA, AND INCLUDES THE GENERAL ACCOUNT OF AN INSURANCE COMPANY ANY OF WHOSE ASSETS CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA AND A WHOLLY-OWNED SUBSIDIARY THEREOF.][1] [THAT SUCH HOLDER IS NOT (AND FOR SO LONG AS IT HOLDS A CLASS D NOTE OR CLASS E NOTE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS A CLASS D NOTE OR CLASS E NOTE OR ANY INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR. EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A CLASS D NOTE OR CLASS E NOTE OR AN INTEREST THEREIN WILL BE DEEMED TO REPRESENT THAT SUCH OWNER WILL NOT TRANSFER SUCH INTEREST EXCEPT IN COMPLIANCE WITH THE TRANSFER RESTRICTIONS SET FORTH IN THE INDENTURE INCLUDING THE REQUIREMENT THAT NO CLASS D NOTE OR CLASS E NOTE OR AN INTEREST THEREIN MAY BE TRANSFERRED TO A BENEFIT PLAN INVESTOR. A "BENEFIT PLAN INVESTOR" IS ANY EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), ANY PLAN SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND ANY ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED TO INCLUDE ASSETS OF ANY SUCH PLAN BY REASON OF SUCH A PLAN'S INVESTMENT IN SUCH ENTITY FOR PURPOSES OF ERISA, AND INCLUDES THE GENERAL ACCOUNT OF AN INSURANCE COMPANY ANY OF WHOSE ASSETS CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA AND A WHOLLY-OWNED SUBSIDIARY THEREOF.][2] THE NOTES OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED ONLY IN PERMITTED DENOMINATIONS SPECIFIED IN THE INDENTURE. THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A [REGULATION S NOTE][3] [RESTRICTED NOTE][4] UPON RECEIPT BY THE TRUSTEE OF A TRANSFER CERTIFICATE FROM THE

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1 Class A-1 Notes, Class A-2 Notes, Class B Notes and Class C Notes only.

2 Class D Notes and Class E Notes only.

3 Restricted Notes only.

4 Regulation S Notes only.

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TRANSFEROR SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE. ACCORDINGLY, AN INVESTOR IN THIS NOTE MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

[IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THIS NOTE OR THE INDENTURE, 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 CLASS D NOTE OR CLASS E NOTE, THE ISSUER (OR THE COLLATERAL MANAGER ON ITS BEHALF) SHALL REQUIRE, BY NOTICE TO SUCH BENEFIT PLAN INVESTOR, THAT SUCH BENEFIT PLAN INVESTOR SELL ALL OF ITS RIGHT, TITLE AND INTEREST IN OR TO SUCH CLASS D NOTE OR CLASS E NOTE IN ACCORDANCE WITH THE INDENTURE, 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 COLLATERAL MANAGER OR THE ISSUER, THE TRUSTEE SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH BENEFIT PLAN INVESTOR OR INSURANCE COMPANY TO, CAUSE ITS INTEREST IN SUCH CLASS D NOTE OR CLASS E NOTE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE ARRANGED BY THE COLLATERAL MANAGER (CONDUCTED BY THE TRUSTEE OR AN INVESTMENT BANK SELECTED BY THE TRUSTEE IN ACCORDANCE WITH SECTION 9-610(b) OF THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE STATE OF NEW YORK AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON THAT CERTIFIES TO THE TRUSTEE, THE ISSUER AND THE COLLATERAL MANAGER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON SATISFIES THE REQUIREMENTS FOR A PURCHASER OF A CLASS D NOTE OR CLASS E NOTE PURSUANT TO THE INDENTURE AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF SUCH CLASS D NOTE OR CLASS E NOTE AND SUCH CLASS D NOTE OR CLASS E NOTE SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE NOTEHOLDERS.][5]

IF, NOTWITHSTANDING THE RESTRICTIONS ON TRANSFER CONTAINED IN THE INDENTURE, 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 (UNLESS SUCH BENEFICIAL OWNER IS AN ACCREDITED INVESTOR THAT PURCHASED SUCH RESTRICTED NOTE (OR ANY INTEREST THEREIN) DIRECTLY FROM THE CO-ISSUERS OR THE INITIAL PURCHASER) AND ALSO A QUALIFIED PURCHASER, THEN EITHER OF THE CO-ISSUERS 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

[5] Class D and Class E Notes only.

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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, THE TRUSTEE SHALL, 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 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.

IN ADDITION, NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS (A) A DEALER DESCRIBED IN PARAGRAPH (A)(1)(ii) OF RULE 144A WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER OR (B) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN. THE TRANSFEREE, AND EACH ACCOUNT FOR WHICH IT IS PURCHASING, IS REQUIRED TO HOLD AND TRANSFER AT LEAST THE MINIMUM DENOMINATIONS OF THE NOTES.

The following will be inserted in the case of Class C Notes, Class D Notes and Class E Notes:

THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("OID") FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE ISSUE PRICE, AMOUNT OF OID, ISSUE DATE AND YIELD TO MATURITY OF THIS NOTE MAY BE OBTAINED BY WRITING TO DIRECTOR, STRUCTURED CREDIT PRODUCTS GROUP, MERRILL LYNCH, PIERCE, FENNER & SMITH, INCORPORATED, NORTH TOWER, 4 WORLD FINANCIAL CENTER, 7TH FLOOR, NEW YORK, NY 10080.

The following will be inserted in the case of Global Notes:

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE NOTE REGISTRAR FOR

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REGISTRATION OF TRANSFER OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

In addition, the legend set forth on any 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.

(20) *Legend for Preference Shares*. The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Preference Shares:

THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") OR (3) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (SUBJECT TO THE DELIVERY OF SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS THE ISSUER MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE ISSUER CHARTER AND THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. NEITHER THE ISSUER NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT").

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A RESTRICTED DEFINITIVE PREFERENCE SHARE OR AN INTEREST THEREIN WILL BE REQUIRED TO CERTIFY WHETHER OR NOT IT IS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON (EACH, AS DEFINED BELOW). NO TRANSFER OF RESTRICTED DEFINITIVE PREFERENCE SHARES WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER IF, AFTER GIVING EFFECT TO SUCH TRANSFER, 25% OR MORE OF THE PREFERENCE SHARES (DISREGARDING THE PREFERENCE SHARES

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HELD BY CONTROLLING PERSON) WOULD BE HELD BY BENEFIT PLAN INVESTORS (THE "25% THRESHOLD"). NO REGULATION S PREFERENCE SHARE OR AN INTEREST THEREIN MAY BE ACQUIRED BY OR TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON. EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF AN INTEREST IN A REGULATION S PREFERENCE SHARE WILL BE REQUIRED TO EXECUTE A LETTER IN THE FORM OF EXHIBIT A TO THE OFFERING CIRCULAR AND AS EXHIBIT D TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT TO THE EFFECT THAT SUCH OWNER WILL NOT TRANSFER SUCH INTEREST EXCEPT IN COMPLIANCE WITH THE TRANSFER RESTRICTIONS SET FORTH IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT (INCLUDING THE REQUIREMENT THAT NO REGULATION S PREFERENCE SHARES MAY BE TRANSFERRED TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, AND THE REQUIREMENT THAT ANY SUBSEQUENT TRANSFEREE EXECUTE AND DELIVER SUCH LETTER TO THE ISSUER AND THE PREFERENCE SHARE PAYING AGENT AS A CONDITION TO ANY SUBSEQUENT TRANSFER). NO REGULATION S PREFERENCE SHARES MAY BE TRANSFERRED TO A TRANSFEREE WHICH IS ACQUIRING AN INTEREST IN A REGULATION S PREFERENCE SHARE UNLESS SUCH TRANSFEREE EXECUTES A LETTER IN THE FORM OF EXHIBIT A TO THE OFFERING CIRCULAR AND AS EXHIBIT D TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT. NO RESTRICTED DEFINITIVE PREFERENCE SHARE MAY BE ACQUIRED BY OR TRANSFERRED TO A BENEFIT PLAN INVESTOR OR, SUBJECT TO THE PROVISIONS OF SECTION 2.5(f) OF THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, TO A CONTROLLING PERSON OTHER THAN ON THE CLOSING DATE AND ONLY TO THE EXTENT THAT, 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 THAT IS A BENEFIT PLAN INVESTOR OR A GOVERNMENTAL OR CHURCH PLAN 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 THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY LAW THAT IS SILIMAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE).

A "BENEFIT PLAN INVESTOR" IS ANY EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF ERISA, ANY PLAN SUBJECT TO SECTION 4975 OF THE CODE, AND ANY ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED TO INCLUDE ASSETS OF ANY SUCH PLAN BY REASON OF SUCH A PLAN'S INVESTMENT IN SUCH ENTITY FOR PURPOSES OF ERISA, AND INCLUDES THE GENERAL ACCOUNT OF AN INSURANCE COMPANY ANY OF WHOSE ASSETS CONSTITUTE PLAN ASSETS UNDER SECTION 401(c) OF ERISA AND A WHOLLY-OWNED SUBSIDIARY THEREOF. A CONTROLLING PERSON IS A PERSON OTHER THAN A BENEFIT PLAN INVESTOR WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER, OR WHO PROVIDES INVESTMENT ADVICE FOR A FEE, DIRECT OR INDIRECT, WITH RESPECT TO SUCH ASSETS, OR ANY AFFILIATES OF SUCH A PERSON.

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NO TRANSFER OF A PREFERENCE SHARE (OR ANY INTEREST THEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. PERSON THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 OF THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE SUCH QUALIFIED PURCHASERS AND/OR KNOWLEDGEABLE EMPLOYEES (EACH OF (I), (II) AND (III), A "QUALIFIED PURCHASER"), (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER IS MADE TO A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON [EXCEPT TO A BENEFIT PLAN INVESTOR THAT IS AN ORIGINAL PURCHASER WHOSE INVESTMENT IN PREFERENCE SHARES WOULD NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR TO A CONTROLLING PERSON THAT IS AN ORIGINAL PURCHASER AND ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, THE 25% THRESHOLD WOULD NOT HAVE BEEN EXCEEDED],[6] (D) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. PERSON WHICH IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE TRANSFER CERTIFICATE ATTACHED TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT), (E) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A CONTROLLING PERSON [EXCEPT TO A CONTROLLING PERSON THAT IS AN ORIGINAL PURCHASER AND ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, THE 25% THRESHOLD WOULD NOT HAVE BEEN EXCEEDED][7] OR (F) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO HEREIN. ACCORDINGLY, AN INVESTOR IN THE PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. EACH HOLDER HEREOF IS REQUIRED IN WRITING OR DEEMED TO REPRESENT AND WARRANT [(1) IN THE CASE OF AN ORIGINAL PURCHASER, EITHER (X) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS PREFERENCE SHARE OR AN INTEREST HEREIN WILL NOT BE) A BENEFIT PLAN INVESTOR OR (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) OR (2) OTHERWISE,][8] THAT IT IS NEITHER A BENEFIT PLAN INVESTOR NOR A CONTROLLING PERSON.

THE PREFERENCE SHARES REPRESENTED HEREBY OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED IN AN AMOUNT NOT LESS THAN THE MINIMUM TRADING LOT SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY

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[6] Restricted Definitive Preference Shares only.

[7] Restricted Definitive Preference Shares only.

[8] Restricted Definitive Preference Shares only.

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AGREEMENT. IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, THE ISSUER DETERMINES THAT ANY HOLDER OF THIS PREFERENCE SHARE OR AN INTEREST HEREIN (X) IS A U.S. PERSON (IN THE CASE OF A PERSON ACQUIRING (A) REGULATION S DEFINITIVE PREFERENCE SHARES OR (B) ITS INTEREST THROUGH A REGULATION S GLOBAL PREFERENCE SHARE), (Y) IS NOT BOTH (I) (A) A QUALIFIED INSTITUTIONAL BUYER OR (IN THE CASE OF AN ORIGINAL PURCHASER) AN ACCREDITED INVESTOR OR (B) ENTITLED TO TAKE DELIVERY OF SUCH RESTRICTED DEFINITIVE PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (II) A QUALIFIED PURCHASER (IN THE CASE OF PERSON ACQUIRING A RESTRICTED DEFINITIVE PREFERENCE SHARE) AND/OR (Z) IN ALL CASES, IS OR BECOMES A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON [AND IN THE CASE OF AN "ORIGINAL PURCHASER" DID NOT DISCLOSE IN AN INVESTOR APPLICATION FORM THAT IT WAS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON][9] THE ISSUER SHALL REQUIRE, BY NOTICE TO SUCH HOLDER THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO THIS PREFERENCE SHARE (OR INTEREST HEREIN) TO A PERSON THAT (1) IS NOT A U.S. PERSON (IN THE CASE OF A PERSON HOLDING (A) REGULATION S DEFINITIVE PREFERENCE SHARES OR (B) ITS INTEREST THROUGH A REGULATION S GLOBAL PREFERENCE SHARE) OR (2) IS BOTH (A)(X) A QUALIFIED INSTITUTIONAL BUYER OR (Y) ENTITLED TO TAKE DELIVERY OF SUCH RESTRICTED DEFINITIVE PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (B) A QUALIFIED PURCHASER (IN THE CASE OF A PERSON HOLDING RESTRICTED DEFINITIVE PREFERENCE SHARES) AND (3) 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, THE PREFERENCE SHARE PAYING AGENT SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH HOLDER TO, CAUSE SUCH HOLDER'S INTEREST IN THIS PREFERENCE SHARE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE ARRANGED BY THE ISSUER (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE PREFERENCE SHARE PAYING AGENT AND APPROVED BY THE ISSUER IN ACCORDANCE WITH SECTION 9-610(b) OF THE UCC AS IN EFFECT IN THE STATE OF NEW YORK AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON THAT CERTIFIES TO THE PREFERENCE SHARE PAYING AGENT AND THE ISSUER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON (I) IS NOT A U.S. PERSON (IN THE CASE OF A PERSON HOLDING (A) REGULATION S DEFINITIVE PREFERENCE SHARES OR (B) ITS INTEREST THROUGH A REGULATION S GLOBAL PREFERENCE SHARE) OR (II) IS BOTH (1)(A) A QUALIFIED INSTITUTIONAL BUYER OR (B) ENTITLED TO TAKE DELIVERY OF SUCH RESTRICTED DEFINITIVE PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (2) A QUALIFIED PURCHASER (IN THE CASE OF A PERSON HOLDING RESTRICTED PREFERENCE SHARES) AND (III) IN ALL CASES, IS NOT A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, AND (Y) PENDING SUCH

[9] Restricted Definitive Preference Shares only.

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TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE INTEREST IN THE PREFERENCE SHARE HELD BY SUCH HOLDER, AND THE INTEREST IN THIS PREFERENCE SHARE SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE HOLDERS OF THE PREFERENCE SHARES.

The following shall be inserted in the case of Regulation S Global Preference Shares:

UNLESS THIS REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE PREFERENCE SHARE REGISTRAR FOR REGISTRATION OF TRANSFER OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE REPRESENTS REGULATION S GLOBAL PREFERENCE SHARES DEPOSITED WITH DTC ACTING AS DEPOSITARY, AND REGISTERED IN THE NAME OF CEDE & CO., A NOMINEE OF DTC, AND CEDE & CO., AS HOLDER OF RECORD, SHALL BE ENTITLED TO RECEIVE ALL DISTRIBUTIONS, OTHER THAN THE FINAL REDEMPTION AMOUNTS, BY WIRE TRANSFER OF IMMEDIATELY AVAILABLE FUNDS. THE STATEMENTS IN THE LEGEND RELATING TO DTC SET FORTH ABOVE ARE AN INTEGRAL PART OF THE TERMS OF THESE PREFERENCE SHARES AND BY ACCEPTANCE THEREOF EACH HOLDER AGREES TO BE SUBJECT TO AND BOUND BY THE TERMS AND PROVISIONS SET FORTH IN SUCH LEGEND. UPON ANY SUCH EXCHANGE OR TRANSFER OF A BENEFICIAL INTEREST IN THIS REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE FOR A DEFINITIVE PREFERENCE SHARE CERTIFICATE OR UPON ANY EXCHANGE OR TRANSFER OF A DEFINITIVE PREFERENCE SHARE CERTIFICATE FOR AN INTEREST IN THIS REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE IN ACCORDANCE WITH THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, THIS REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE SHALL BE CANCELLED AND A NEW REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE WILL BE ISSUED AND REGISTERED IN THE NAME OF CEDE & CO., AS NOMINEE OF DTC, REFLECTING THE NUMBER OF PREFERENCE SHARES HELD IN REGULATION S GLOBAL FORM.

THIS PREFERENCE SHARE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A RESTRICTED DEFINITIVE PREFERENCE SHARE ONLY UPON RECEIPT BY THE ISSUER AND THE PREFERENCE SHARE PAYING AGENT OF A LETTER SUBSTANTIALLY IN THE FORM SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT.

The following shall be inserted in the case of Regulation S Preference Shares:

THIS PREFERENCE SHARE OR ANY BENEFICIAL INTEREST HEREIN MAY NOT BE HELD BY A U.S. PERSON AT ANY TIME.

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The following shall be inserted in the case of Restricted Definitive Preference Shares:

THIS PREFERENCE SHARE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE ONLY UPON RECEIPT BY THE ISSUER AND THE PREFERENCE SHARE PAYING AGENT OF A LETTER SUBSTANTIALLY IN THE FORM SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT.

Investor Representations on Resale. Except as provided below, each transferee of an Offered Security will be required to deliver to the Co-Issuers and the Note Registrar or the Preference Share Paying Agent, as the case may be, a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture or the Preference Share Paying Agency Agreement, as the case may be, and such other certificates and other information as the Issuer, the Co-Issuer, the Trustee or the Preference Share Paying Agent may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular. An owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification; *provided* that (1) such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and such transfer is effected through Euroclear or Clearstream, Luxembourg in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures and (2) any transfer not effected in an offshore transaction in accordance with Rule 904 of Regulation S may be made only upon provision to the Note Registrar of written certification from the transferee and transferor in the form provided for in the Indenture. An owner of a beneficial interest in a Regulation S Global Preference Share may transfer such interest in the form of a beneficial interest in such Regulation S Global Preference Share only if the transferee executes and delivers to the Issuer, the Collateral Manager and the Preference Share Paying Agent a letter in the form attached as Exhibit A hereto. An owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification if the transferee is both a Qualified Institutional Buyer and a Qualified Purchaser.

Each transferee of a beneficial interest in a Regulation S Global Note, Restricted Global Note or Regulation S Global Preference Share will be deemed to make the same representations and warranties at the time of purchase that a transferee of a Note or Preference Share subject to equivalent transfer restrictions that is required to deliver a transfer certificate would be required to make pursuant to such transferee certificate.

Each purchaser of a Class D Note or Class E Note or an interest therein and each transferee thereof will be deemed to represent that it is not a Benefit Plan Investor and that it will not transfer such interest except in compliance with the transfer restrictions set forth in the Indenture including the requirement that the transferee is not a Benefit Plan Investor, including for this purpose, an insurance company general account any of the underlying assets of which constitutes "plan assets" under Section 401(c) of ERISA (and a wholly owned subsidiary of such a general account).

Each transferee of an Offered Security that is required to deliver a transfer certificate will be required, pursuant to such transferee certificate, and each transferee who is not required to deliver a certificate will be deemed (a) to acknowledge, represent and warrant to and agree with the Issuer and the Trustee as to the matters set forth in each of paragraphs (1) through (20) 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 Note) or the Preference Share Paying Agent (in the case of a Preference Share) as follows:

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(1) In the case of a transferee who takes delivery of a beneficial interest in a Restricted Global Note, it (i) is a Qualified Institutional Buyer and also a Qualified Purchaser; (ii) is not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless such purchaser owns and invests on a discretionary basis at least U.S.$25,000,000 in securities of issuers that are not affiliated persons of the dealer; (iii) is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan; (iv) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee; and (v) is acquiring such Offered Securities for its own account. In the case of a transferee who takes delivery of a Restricted Definitive Preference Share, unless such transfer is effected in accordance with another exemption from the registration requirements of the Securities Act (and such certifications, legal opinions or other information as the Issuer has reasonably required to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act have been delivered), it is a Qualified Institutional Buyer purchasing for its own account. In the case of a transferee who takes delivery of Regulation S Notes or Regulation S Preference Shares, it (i) is acquiring such Notes or Preference Shares in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; (ii) is acquiring such Notes or Preference Shares for its own account; (iii) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Notes or Preference Shares while it is in the United States or any of its territories or possessions; (iv) understands that such Notes and Preference Shares are being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations; (v) understands that such Notes or Preference Shares may not, absent an applicable exemption, be transferred without registration and/or qualification under the Securities Act and applicable state securities laws and the laws of any other applicable jurisdiction; (vi) in the case of a transferee of a Regulation S Note, understands that interests in a Regulation S Global Note may only be held through Euroclear or Clearstream, Luxembourg; and (vii) in the case of a transferee of a Regulation S Preference Share, understands that an interest in a Regulation S Global Preference Share may only be held through Euroclear or Clearstream, Luxembourg and that such interest may not be held by or transferred to a Benefit Plan Investor or a Controlling Person. In addition, each Preference Shareholder must provide the Issuer and the Share Registrar an executed letter in the appropriate form attached to the Preference Share Paying and Transfer Agency Agreement or, in the case of a holder of an interest in a Regulation S Global Preference Share, must execute and deliver a letter in the form attached as Exhibit A hereof.

(2) It acknowledges that the foregoing acknowledgements, representations, warranties and agreements will be relied upon by the Issuer and the Trustee (in the case of a Note) or the Preference Share Paying Agent (in the case of a Preference Share) for the purpose of determining its eligibility to purchase Offered Securities. It agrees to provide, if requested, any additional information that may be required to substantiate its status as a Qualified Institutional Buyer or under the exception provided pursuant to Section 3(c)(7) of the Investment Company Act and Rule 3c-5 promulgated under the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine its eligibility to purchase Offered Securities.

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LISTING AND GENERAL INFORMATION

1. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the 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 Notes on any other stock exchange. In connection with the listing of the Notes on the Irish Stock Exchange, the Offering Circular will be filed with the Register of Companies of Ireland pursuant to Regulation 13(1) of the European Communities (Stock Exchange) Regulations, 1984 of Ireland.

Application will be made to admit the Preference Shares to the official list of the Channel Islands Stock Exchange. If the Preference Shares are listed on the CISX, the Issuer may at any time terminate the listing of the Preference Shares if the Issuer determines that, as a result of the a change in the requirements of the CISX, the maintenance of such listing would impose any material obligation or expense on the Issuer (in excess of the amount anticipated on the Closing Date). No application will be made to list the Preference Shares on any other stock exchange.

2. For as long as the 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 Collateral Management 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 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 Offered 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

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declared any dividends, except for the transactions described herein relating to the issuance of the Offered Securities.

6. The Securities represented by Global Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear. 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 Note CUSIP Numbers	Regulation S International Securities Identification Numbers	Restricted Note CUSIP Numbers	Restricted Note International Securities Identification Numbers
Class A-1 Notes	G52952AA9	USG52952AA90	498586AA4	US498586AA48
Class A-2 Notes	G52952AC5	USG52952AC56	498586AC0	US498586AC04
Class B Notes	G52952AD3	USG52952AD30	498586AD8	US498586AD86
Class C Notes	G52952AE1	USG52952AE13	498586AE6	US498586AE69
Class D Notes	G52952AF8	USG52952AF87	498586AF3	US498586AF35
Class E Notes	G52952AG6	USG52952AG60	498586AG1	US498586AG18

7. Preference Shares represented by Regulation S Global Preference Shares have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The table below lists the CUSIP (CINS) Numbers and the International Securities Identification Numbers (ISIN) for the Preference Shares and the Combination Notes:

	Regulation S Note CUSIP Numbers	Regulation S International Securities Identification Numbers	Restricted Note CUSIP Numbers	Restricted Note International Securities Identification Numbers
Preference Shares	G52951202	KYG529512025	49858U202	US49858U2024
Combination Notes	G52951AA1	USG52951AA18	49858UAA1	US49858UAA16

LEGAL MATTERS

Certain legal matters with respect to New York law will be passed upon for the Issuer and the Collateral Manager by Freshfields Bruckhaus Deringer LLP, New York, New York. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Walkers. Certain legal matters with respect to the Initial Purchaser will be passed upon by Schulte Roth & Zabel LLP, New York, New York.

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SCHEDULE A

Part I
Moody's Recovery Rate Matrix

(see definition of "Applicable Recovery Rate")

A. ABS Type Diversified Securities

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	70%	60%	50%	40%
Less than or equal to 70%, but greater than 10%	75%	70%	60%	50%	40%	30%
Less than or equal to 10%	70%	65%	55%	45%	35%	25%

B. ABS Type Residential Securities

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	65%	55%	45%	30%
Less than or equal to 70%, but greater than 10%	75%	70%	55%	45%	35%	25%
Less than or equal to 10%, but greater than 5%	65%	55%	45%	40%	30%	20%
Less than or equal to 5%, but greater than 2%	55%	45%	40%	35%	25%	15%
Less than or equal to 2%	45%	35%	30%	25%	15%	10%

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C. ABS Type Undiversified Securities

Percentage of Total Capitalization	Moody's Rating*					
	Aaa	Aa	A	Baa	Ba	B
Greater than 70%	85%	80%	65%	55%	45%	30%
Less than or equal to 70%, but greater than 10%	75%	70%	55%	45%*	35%	25%
Less than or equal to 10%, but greater than 5%	65%	55%	45%	35%	25%	15%
Less than or equal to 5%, but greater than 2%	55%	45%	35%	30%	20%	10%
Less than or equal to 2%	45%	35%	25%	20%	10%	5%

D. Low-Diversity CDO Securities 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, an ABS REIT Debt Security, a CMBS 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 Rating of Notes						
	AAA	AA	A	BBB	BB	B	CCC
"AAA"	80%	85%	90%	90%	90%	90%	90%
"AA-", "AA" or "AA+"	70%	75%	85%	90%	90%	90%	90%
"A-", "A" or "A+"	60%	65%	75%	85%	90%	90%	90%
"BBB-", "BBB" or "BBB+"	50%	55%	65%	75%	85%	85%	85%

B. If the Collateral Debt Security (other than a Synthetic Security, an ABS REIT Debt Security, a CMBS Security, 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 Rating of Notes						
	AAA	AA	A	BBB	BB	B	CCC
"AAA"	65%	70%	80%	85%	85%	85%	85%
"AA-", "AA" or "AA+"	55%	65%	75%	80%	80%	80%	80%
"A-", "A" or "A+"	40%	45%	55%	65%	80%	80%	80%
"BBB-", "BBB" or "BBB+"	30%	35%	40%	45%	50%	60%	70%
"BB-", "BB" or "BB+"	10%	10%	10%	25%	35%	40%	50%
"B-", "B" or "B+"	2.5%	5%	5%	10%	10%	20%	25%
"CCC+" and below	0%	0%	0%	0%	2.5%	5%	5%

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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 (other than a Form Approved 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

Form of Purchaser and Transferee Letter
For Regulation S Global Preference Shares

Date:_____

Kleros Preferred Funding III, Ltd.
c/o Walkers SPV Limited
Walker House
87 Mary Street, George Town
Grand Cayman KY1-9002, Cayman Islands
Attention: The Directors

Wells Fargo Bank, National Association
Wells Fargo Center
6th Street and Marquette Avenue
Minneapolis, Minnesota 55479
Attention: Corporate Trust Department–Kleros Preferred Funding III, Ltd.

Strategos Capital Management, LLC
2929 Arch Street
Suite 1703
Philadelphia, Pennsylvania 19104

Ladies and Gentlemen:

Reference is made to the Offering Circular (the "Offering Circular") relating to (i) the offering by Kleros Preferred Funding III, Ltd. (the "Issuer") and Kleros Preferred Funding III, LLC (the "Co-Issuer") of Class A-1 First Priority Senior Secured Delayed Draw Floating Rate Notes due October, 2050, Class A-2 Second Priority Senior Secured Floating Rate Notes due October, 2050, Class B Third Priority Senior Secured Floating Rate Notes due October, 2050, Class C Fourth Priority Mezzanine Secured Deferrable Floating Rate Notes due October, 2050, Class D Fifth Priority Mezzanine Secured Deferrable Floating Rate Notes due October, 2050, Class E Sixth Priority Mezzanine Secured Deferrable Floating Rate Notes due October, 2050 and Preference Shares. Terms used but not defined herein have the respective meanings given to such terms in the Offering Circular.

The Offering Circular provides that Preference Shares offered and sold outside the United States may be offered to non-U.S. Persons which are not Benefit Plan Investors or Controlling Persons in reliance upon Regulation S under the Securities Act of 1933, as amended (the "Securities Act"), and will be issued in the form of one or more Regulation S Global Preference Shares ("Regulation S Global Preference Shares"). The Regulation S Global Preference Shares shall be deposited with the Preference Share Paying Agent as custodian for, and registered in the name of, DTC (or its nominee). The Preference Shares that we purchase (the "Purchased Preference Shares") will be represented by an interest in a Regulation S Global Preference Share.

We acknowledge that this letter must be delivered to the Issuer, the Preference Share Paying Agent and the Collateral Manager as a condition to the transfer of the Purchased Preference Shares.

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In consideration of the foregoing, we agree with the Issuer, the Preference Share Paying Agent and the Preference Share Registrar that prior to any sale, assignment, pledge or other transfer of any of the Preference Shares (or any interest therein) to any transferee, we will:

(i) cause the transferee to, if required by the Preference Share Paying Agency Agreement, make the applicable certifications to the Issuer, the Preference Share Paying Agent and the Collateral Manager set forth in the Transfer Certificate (as defined in the Preference Share Paying Agency Agreement); and

(ii) cause the transferee to deliver a letter to the Issuer, the Preference Share Paying Agent and the Preference Share Registrar to the effect that (A) such transferee will, prior to any sale, assignment, pledge or other transfer of any of the Purchased Preference Shares (or any interest therein) to any subsequent transferee, cause such subsequent transferee to take the actions specified in this clause and the immediately preceding clause (i) (as if each reference to the word "transferee" were a reference to such subsequent transferee); (B) for the period it holds any interest in a Preference Share, it is not (i) an employee benefit subject to party of Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) a plan subject to Section 4975of the U.S. Internal Revenue Code, (iii) any entity whose underlying assets include "plan assets" of any of the foregoing by reason of an investment in the entity by such aforementioned plan or arrangement (each a "Benefit Plan Investor") or (iv) any person (other than a Benefit Plan Investor) that has discretionary authority or control with respect to the assets of the Issuer or a person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Issuer or any affiliate of any such person (each such person, a "Controlling Person") and will not transfer its interest in the Preference Shares to a Benefit Plan Investor or a Controlling Person.

We represent and warrant to the Issuer, the Preference Share Paying Agent and the Preference Share Registrar that, for the period during which we hold any interest in a Preference Share, we are neither a Benefit Plan Investor nor a Controlling Person.

In addition, we represent and warrant to the Issuer, the Preference Share Agent and the Preference Share Registrar that we will not transfer our interest in the Preference Share to a Benefit Plan Investor or a Controlling Person.

We understand that this letter will be relied upon by the Issuer, the Initial Purchaser, the Preference Share Paying Agent, the Preference Share Registrar and the Collateral Manager for the purpose of ensuring that subsequent transferees have notice of, and are subject to, the transfer restrictions applicable to the Purchased Preference Shares and described in the Offering Circular. We agree to indemnify and hold harmless the Issuer, the Initial Purchaser, the Preference Share Paying Agent, the Collateral Manager and the Preference Share Registrar and each of their respective affiliates from and against any loss, damage or liability to the extent due to or arising out of a breach of any representation, warranty or agreement made by us in this letter.

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This letter agreement shall be governed by and construed in accordance with the laws of the State of New York.

Very truly yours,

NAME OF HOLDER

By: _____
Name:
Title:

A signed copy of this letter agreement must be faxed to Wells Fargo Bank, National Association at 9062 Old Annapolis Road, Columbia, Maryland 21045, Attention: CDO Trust Services – Kleros Preferred Funding III, Ltd., with a copy mailed to Wells Fargo Bank, National Association, Wells Fargo Center, 6th Street and Marquette Avenue, Minneapolis, Minnesota 55479, Attention: Corporate Trust Department–Kleros Preferred Funding III, Ltd; and mailed to Strategos Capital Management, LLC, 2929 Arch Street, Suite 1703, Philadelphia, Pennsylvania 19104, Attention: Matthew Nannen; and Walkers SPV Limited at Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands., Attention: Kleros Preferred Funding III, Ltd.

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Written Down Security 108

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Kleros Preferred Funding III, Ltd.
Kleros Preferred Funding III, LLC

U.S.$1,800,000,000 Class A-1 First Priority Senior Secured Delayed Draw Floating Rate Notes Due 2050
U.S.$90,000,000 Class A-2 Second Priority Senior Secured Floating Rate Notes Due 2050
U.S.$54,000,000 Class B Third Priority Senior Secured Floating Rate Notes Due 2050
U.S.$9,800,000 Class C Fourth Priority Mezzanine Secured Deferrable Floating Rate Notes Due 2050
U.S.$25,800,000 Class D Fifth Priority Mezzanine Secured Deferrable Floating Rate Notes Due 2050
U.S.$6,000,000 Class E Sixth Priority Mezzanine Secured Deferrable Floating Rate Notes Due 2050
8,600 Preference Shares with an Aggregate liquidation preference of U.S.$8,600,000

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

OFFERING CIRCULAR

September 22, 2006

Merrill Lynch & Co.

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