U.S.$24,375,000 Class A First Priority Secured Floating Rate Notes Due 2040
U.S.$41,250,000 Class B Second Priority Secured Floating Rate Notes Due 2040
U.S.$20,625,000 Class C Third Priority Secured Deferrable Floating Rate Notes Due 2040
U.S.$24,375,000 Class D Fourth Priority Secured Deferrable Floating Rate Notes Due 2040
40,500 Preference Shares with an Aggregate Liquidation Preference of U.S.$ 40,500,000

Backed by a Portfolio of Credit Default Swaps

Khaleej II CDO, Ltd.
Khaleej II CDO LLC

Khaleej II CDO, Ltd., an exempted company incorporated under the laws of the Cayman Islands (the "Issuer"), and Khaleej II CDO LLC, a Delaware limited liability company (the "Co-Issuer" and, together with the Issuer, the "Co-Issuers"), will issue U.S.$24,375,000 Class A First Priority Secured Floating Rate Notes due 2040 (the "Class A Notes"), U.S.$41,250,000 Class B Second Priority Secured Floating Rate Notes due 2040 (the "Class B Notes"), U.S.$20,625,000 Class C Third Priority Secured Deferrable Floating Rate Notes due 2040 (the "Class C Notes") and U.S.$24,375,000 Class D Fourth Priority Secured Deferrable Floating Rate Notes due 2040 (the "Class D Notes" and, together with the Class A Notes, the Class B Notes and the Class C Notes, the "Notes"). Concurrently with the issuance of the Notes, the Issuer will issue 40,500 Preference Shares with an aggregate liquidation preference of U.S.$40,500,000 (the "Preference Shares" and, together with the Notes, the "Offered Securities"). ACA Management, L.L.C., a Delaware limited liability company (the "Collateral Manager"), will provide advisory services with respect to the Credit Default Swaps and Hedging Credit Default Swaps and will manage the selection of Reference Obligations to be included in the Reference Portfolio.

It is expected that the Class A Notes will be rated "AAA" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), that the Class B Notes will be rated at least "AA" by Standard & Poor's, that the Class C Notes will be rated at least "A" by Standard & Poor's and that the Class D Notes will be rated at least "BBB" by Standard & Poor's. The Preference Shares will not be rated by any rating agency. The ratings assigned by Standard & Poor's to the Class A Notes and the Class B Notes address the timely payment of interest and ultimate payment of principal on each such Class of Notes at its Stated Maturity. The ratings assigned by Standard & Poor's to the Class C Notes and Class D Notes address the ultimate payment of interest (including interest on all Class C Deferred Interest Amounts and all Class D Deferred Interest Amounts, respectively) and principal on such Class of Notes at its Stated Maturity. This Offering Circular constitutes a prospectus (the "Prospectus") for the purposes of Directive 2003/71/EC (the "Prospectus Directive"). References throughout this document to the "Offering Circular" shall be taken to read "Prospectus" for such purpose. Application has been made to the Irish Financial Services Regulatory Authority (the "Financial Regulator in Ireland"), as competent authority under the Prospectus Directive, for the Prospectus to be approved. This approval from the Financial Regulator in Ireland in relation to the Prospectus relates only to the admittance to trading of the Notes on the regulated market of the Irish Stock Exchange. This approval should not be construed as applying to the Preference Shares as this Prospectus has been neither reviewed nor approved by the Financial Regulator in Ireland in respect of the Preference Shares. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. The Irish listing agent is not seeking admission to listing on the Irish Stock Exchange for purposes of Directive 2003/71/EC. Application has been made to the Channel Islands Stock Exchange LBG for the listing of and permission to deal in the Preference Shares. There can be no assurance that any listing will be obtained. No application will be made to list the Notes or the Preference Shares on any other exchange.

SEE "RISK FACTORS" IN THIS OFFERING CIRCULAR (THIS "OFFERING CIRCULAR") FOR A DESCRIPTION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE OFFERED SECURITIES. THE PLEDGED ASSETS OF THE ISSUER ARE THE SOLE SOURCE OF PAYMENTS ON THE OFFERED SECURITIES. THE OFFERED SECURITIES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE TRUSTEE, THE COLLATERAL MANAGER, MERRILL LYNCH INTERNATIONAL, GULF INVESTMENT CORPORATION 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 International ("MLI" or the "Initial Purchaser") and by Gulf Investment Corporation (the "Placement Agent"), subject to prior sale, when, as and if issued. The Initial Purchaser and the Placement Agent reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that the Offered Securities will be delivered on or about September 22, 2005 (the "Closing Date"), through the facilities of, in the case of the Restricted Global Notes, The Depository Trust Company ("DTC"), in the case of the Regulation S Global Notes and the Regulation S Global Preference Shares, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and, in the case of the Definitive Preference Shares, at the offices of Merrill Lynch, Pierce, Fenner & Smith Incorporated, against payment therefor in immediately available funds.

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The date of this Offering Circular is April 20, 2006.

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The Notes will be issued and secured pursuant to an Indenture, dated as of September 22, 2005 (the "Indenture"), among the Issuer, the Co-Issuer and LaSalle Bank National Association, as trustee (the "Trustee"). The Preference Shares are being issued pursuant to the Second 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 administered in accordance with a Preference Share Paying Agency Agreement, dated as of the Closing Date (the "Preference Share Paying Agency Agreement" and, together with the Issuer Charter and the Resolutions, the "Preference Share Documents"), among the Issuer and LaSalle Bank National Association, as preference share paying agent (in such capacity, the "Preference Share Paying Agent"), and Maples Finance Limited, as preference share registrar (in such capacity, the "Preference Share Registrar"). Subject in each case to the Priority of Payments (a) holders of the Class A Notes will be entitled to receive interest at a floating rate *per annum* equal to LIBOR plus 0.55%, (b) holders of the Class B Notes will be entitled to receive interest at a floating rate *per annum* equal to LIBOR plus 0.85%, (c) holders of the Class C Notes will be entitled to receive interest at a floating rate *per annum* equal to LIBOR plus 1.50% and (d) holders of the Class D Notes will be entitled to receive interest at a floating rate *per annum* equal to LIBOR plus 2.85%. See "Description of the Notes—Priority of Payments."

Interest on the Notes will be payable in U.S. dollars (i) quarterly in arrears on each March 20, June 20, September 20 and December 20 (each, a "Quarterly Distribution Date"), commencing December 20, 2005 and terminating on the Initial Redemption Date and (ii) on each other Distribution Date. If any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day.

Payments of principal of and interest on the Notes on any Distribution Date will be made if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein. See "Description of the Notes—Interest" and "Description of the Notes—Principal." The principal of each Class of the Notes is required to be paid by the Stated Maturity, unless redeemed or repaid prior thereto or, if the Holdback Amount is greater than zero, there is a Net Unreimbursed Floating Amount or there are Deliverable Obligations credited to the DO Collateral Subaccount on the Stated Maturity, by no later than the Extended Maturity Date. See "Description of the Notes—Principal."

All of the Class A Notes are entitled to receive payments *pari passu* among themselves, all of the Class B Notes are entitled to receive payments *pari passu* among themselves, all of the Class C Notes are entitled to receive payments *pari passu* among themselves, all of the Class D Notes are entitled to receive payments *pari passu* among themselves and all of the Preference Shares are entitled to receive payments *pari passu* among themselves. The relative order of seniority of payment of each Class of Notes on each Distribution Date is as follows: *first*, the Class A Notes, *second*, the Class B Notes, *third*, the Class C Notes and *fourth*, the Class D Notes with (a) each Class of Notes (other than the Class D Notes) in such list being "Senior" to each other Class of Notes that follows such Class of Notes in such list (*e.g.*, the Class A Notes are Senior to the Class B Notes, the Class B Notes are Senior to the Class C Notes and the Class C Notes are Senior to the Class D Notes) and (b) each Class of Notes (other than the Class A Notes) in such list being "Subordinate" to each other Class of Notes that precedes such Class of Notes in such list (*e.g.*, the Class D Notes are Subordinate to the Class A Notes, the Class B Notes and the Class C Notes). No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full. See "Description of the Notes—Priority of Payments." The assets of the Issuer, which will be pledged to secure the Notes and the Issuer's obligations pursuant to the Master Agreement, the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap and certain other obligations of the Issuer, will be comprised of (a) the Custodial Account, the Credit Default Swaps, the Hedging Credit Default Swaps and the Deliverable Obligations, (b) the Interest Collection Account, the Principal Collection Account, the Payment Account, the Expense Account, the 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 Master Agreement, the Credit Default Swaps, the Hedging Credit Default Swaps, the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Supersenior Swap and the Total Return Swap, (d) all cash delivered to the Trustee and (e) all proceeds, accessions, profits, income benefits, substitutions and replacements, whether voluntary or

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involuntary, of and to any of the property of the Issuer described in the preceding clauses (collectively, the "Collateral").

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

The Notes offered by the Co-Issuers in the United States will be offered in reliance on an exemption from the registration requirements of the Securities Act and will initially be represented by one or more global notes ("Restricted Global Notes") in fully registered form without interest coupons deposited with the Trustee as custodian for, and registered in the name of, DTC (or its nominee). The Notes offered by the Co-Issuers outside the United States will be offered in reliance upon Regulation S and will be represented by one or more global notes ("Regulation S Global Notes") in fully registered form without interest coupons, deposited with a common depositary (the "Common Depositary") for Euroclear and Clearstream, Luxembourg and registered in the name of the Common Depositary (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 Common Depositary and registered in the name of the Common Depositary (or its nominee) for the accounts of Euroclear and/or Clearstream, Luxembourg or (ii) in the limited circumstances described herein, preference share certificates in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof ("Regulation S Definitive Preference Shares"). See "Description of the Notes—Form, Denomination, Registration and Transfer" and "Description of the Preference Shares—Form, Registration and Transfer." Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. The Irish listing agent is not seeking admission to listing on the Irish Stock Exchange for purposes of Directive 2003/71/EC. Application has been made to the Channel Islands Stock Exchange LBG (the "CISX") to admit the Preference Shares to the Official List of the CISX. There can be no assurance that any listing will be obtained. No application will be made to list the Notes or the Preference Shares on any other exchange.

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Notice to New Hampshire Residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NO PERSON IS AUTHORIZED IN CONNECTION WITH ANY OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED HEREIN AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE ISSUER, THE CO-ISSUER, THE INITIAL PURCHASER, THE PLACEMENT AGENT, THE COLLATERAL MANAGER, THE SWAP COUNTERPARTY OR ANY OF THEIR RESPECTIVE AFFILIATES. THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, (A) ANY SECURITIES OTHER THAN THE OFFERED SECURITIES OR (B) ANY OFFERED SECURITIES IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. THE DISTRIBUTION OF THIS OFFERING CIRCULAR AND THE OFFERING OF THE OFFERED SECURITIES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. PERSONS INTO WHOSE POSSESSION THIS OFFERING CIRCULAR COMES ARE REQUIRED BY THE CO-ISSUERS, THE INITIAL PURCHASER AND THE PLACEMENT AGENT 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, THE INITIAL PURCHASER AND THE PLACEMENT AGENT RESERVE THE RIGHT, FOR ANY REASON, TO REJECT ANY OFFER TO PURCHASE IN WHOLE OR IN PART, TO ALLOT TO ANY OFFEREE LESS THAN THE FULL AMOUNT OF OFFERED SECURITIES SOUGHT BY SUCH OFFEREE OR TO SELL LESS THAN THE AGGREGATE STATED PRINCIPAL AMOUNT OF ANY CLASS OF NOTES OR THE NUMBER OF PREFERENCE SHARES.

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THE NOTES ARE LIMITED RECOURSE OBLIGATIONS OF THE CO-ISSUERS. THE NOTES ARE PAYABLE SOLELY FROM THE CREDIT DEFAULT SWAPS, THE HEDGING CREDIT DEFAULT SWAPS 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, THE PLACEMENT AGENT, THE SWAP 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 CREDIT DEFAULT SWAPS, THE HEDGING CREDIT DEFAULT SWAPS AND OTHER COLLATERAL PLEDGED TO SECURE THE NOTES FOR THE PAYMENT OF PRINCIPAL THEREOF AND INTEREST THEREON.

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

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

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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 WILL BE SHOWN ON, AND TRANSFERS THEREOF WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY DTC AND ITS DIRECT AND INDIRECT PARTICIPANTS. ANY TRANSFER OF AN INTEREST IN A REGULATION S GLOBAL NOTE WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY EUROCLEAR AND CLEARSTREAM, LUXEMBOURG AND TO THE EXTENT APPLICABLE, THE COMMON DEPOSITARY. ANY TRANSFER OF PREFERENCE SHARES MAY BE EFFECTED ONLY ON THE PREFERENCE SHARE REGISTER MAINTAINED BY THE PREFERENCE SHARE REGISTRAR (THE "PREFERENCE SHARE REGISTRAR") PURSUANT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT.

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A NOTE 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 ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS ANY NOTE OR INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") THAT IS SUBJECT TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE, AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, WHICH PLAN OR ENTITY IS SUBJECT TO TITLE I OF ERISA OR THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW") OR (B) ITS ACQUISITION AND HOLDING OF SUCH NOTE WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION IN VIOLATION OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW).

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A PREFERENCE SHARE OR A BENEFICIAL INTEREST THEREIN WILL BE REQUIRED TO CERTIFY THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THE PREFERENCE SHARE OR AN INTEREST THEREIN WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS A

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PREFERENCE SHARE OR ANY INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR OR A PERSON THAT IS NOT A BENEFIT PLAN INVESTOR BUT WHICH HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR PROVIDES INVESTMENT ADVICE FOR A FEE, DIRECT OR INDIRECT, WITH RESPECT TO SUCH ASSETS OR WHO IS AN AFFILIATE OF ANY SUCH PERSON (EACH SUCH PERSON, A "CONTROLLING PERSON"), EXCEPT THAT, ON THE CLOSING DATE, IT MAY BE A BENEFIT PLAN INVESTOR WHOSE INVESTMENT IN RESTRICTED DEFINITIVE PREFERENCE SHARES WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW) OR A CONTROLLING PERSON, BUT ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, LESS THAN 25% OF THE VALUE OF THE PREFERENCE SHARES WOULD BE HELD BY BENEFIT PLAN INVESTORS (DETERMINED AFTER EXCLUDING PREFERENCE SHARES HELD BY CONTROLLING PERSONS).

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

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

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

This Offering Circular has been prepared by the Co-Issuers solely for use in connection with the offering of the Offered Securities described herein (the "Offering") and for listing purposes. The Co-Issuers have taken all reasonable care to confirm that the information contained in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect and that there are no other facts relating to the Co-Issuers or the Offered Securities, the omission of which makes this Offering Circular as a whole or any such information contained herein, in light of the circumstances under which it was made, misleading in any material respect and the Co-Issuers accept responsibility for such information accordingly. To the best knowledge and belief of the Co-Issuers, having taken all reasonable care to ensure that this is the case, the aforesaid information is in accordance with the facts and does not omit anything likely to affect the import of such information. The Co-Issuers disclaim any obligation to update such information and do not intend to do so. None of the Initial Purchaser, the Placement Agent or any of their respective affiliates make any representation or warranty as to, has independently verified or assume any responsibility for, the accuracy or completeness of the information contained herein.

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Neither the Collateral Manager nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein (other than the information set forth herein under "Collateral Manager"). Neither the Swap Counterparty nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein (other than the information set forth herein under "The Swap Counterparty"). 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, the Swap Counterparty and the Collateral Manager and any financial projections or other forecasts relating thereto, are based on information furnished by the Co-Issuers, the Swap Counterparty and the Collateral Manager, respectively. See "Forward Looking Statements." None of the Initial Purchaser, the Placement Agent, the Collateral Manager nor any of their respective affiliates assumes any responsibility for the performance of any obligations of either of the Co-Issuers or any other person described in this Offering Circular or for the due execution, validity or enforceability of the Offered Securities, instruments or documents delivered in connection with the Offered Securities (other than in respect of its own obligations), or for the value or validity of any collateral or security interests pledged in connection therewith. The Swap Counterparty does not assume any responsibility for the performance of any obligations of any other person described in this Offering Circular or for the due execution, validity or enforceability of the Offered Securities, instruments or documents delivered in connection with the Offered Securities (other than its own obligations under documents entered into by it) 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 listing agent for the Notes will initially be McCann FitzGerald Listing Services Limited (in such capacity, the "Irish Listing Agent"). 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 Maples Finance Jersey Limited.

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.

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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."

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. The Placement Agent has no obligation to make a market in any Class of Notes or the Preference Shares, and does not intend to do so. In the event that the Initial Purchaser or the Placement Agent 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

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INFORMATION PROVIDED BY OR STATEMENTS MADE BY THE INITIAL PURCHASER, THE PLACEMENT AGENT OR ANY OF THEIR 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 PLACEMENT AGENT, THE COLLATERAL MANAGER, THE SWAP 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 any of the Offered Securities.

NOTICE TO FLORIDA RESIDENTS

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

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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 OFFERED SECURITIES ISSUED BY THE CO-ISSUERS ARE NOT OFFERED IN AUSTRIA, AND THE CO-ISSUERS ARE NOT AND WILL NOT BE REGISTERED AS A FOREIGN INVESTMENT FUND IN AUSTRIA.

NOTICE TO RESIDENTS OF BAHRAIN

NO PUBLIC OFFER OF THE SECURITIES WILL BE MADE IN BAHRAIN AND NO APPROVALS HAVE BEEN SOUGHT FROM ANY GOVERNMENTAL AUTHORITY OF OR IN BAHRAIN. NONE OF THE ISSUERS, THE COLLATERAL MANAGER, THE INITIAL PURCHASER OR THE PLACEMENT AGENT ARE PERMITTED TO MAKE ANY INVITATION TO THE PUBLIC IN THE STATE OF BAHRAIN TO SUBSCRIBE FOR THE SECURITIES AND THIS OFFERING CIRCULAR MAY NOT BE ISSUED, PASSED TO OR MADE AVAILABLE TO MEMBERS OF THE PUBLIC IN BAHRAIN GENERALLY.

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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 RESIDENTS OF BRUNEI

THIS OFFERING CIRCULAR AND THE OFFERED SECURITIES HAVE NOT BEEN DELIVERED TO, REGISTERED WITH OR APPROVED BY THE BRUNEI DARUSSALAM REGISTRAR OF COMPANIES, REGISTRAR OF INTERNATIONAL BUSINESS COMPANIES, NOR THE BRUNEI DARUSSALAM MINISTRY OF FINANCE. THIS OFFERING CIRCULAR WILL NOT BE REGISTERED UNDER THE RELEVANT SECURITIES LAWS OF BRUNEI DARUSSALAM.

NOTICE TO RESIDENTS OF DENMARK

EACH OF THE CO-ISSUERS, THE INITIAL PURCHASER AND THE PLACEMENT AGENT 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 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. NEITHER THE INITIAL PURCHASER NOR THE PLACEMENT AGENT 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 ISRAEL

THE OFFERED SECURITIES ARE OFFERED TO A LIMITED NUMBER OF SOPHISTICATED INVESTORS, IN ALL CASES UNDER CIRCUMSTANCES DESIGNED TO PRECLUDE A DISTRIBUTION WHICH WOULD BE OTHER THAN A PRIVATE PLACEMENT. THIS OFFERING CIRCULAR MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE, NOR BE FURNISHED TO ANY OTHER PERSON OTHER THAN THOSE TO WHOM COPIES HAVE BEEN SENT.

NOTICE TO RESIDENTS OF JAPAN

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

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NOTICE TO RESIDENTS OF KUWAIT

THIS OFFER OF OFFERED SECURITIES IS AIMED AT INSTITUTIONS AND SOPHISTICATED, HIGH NET WORTH INDIVIDUALS ONLY. THIS OFFERING CIRCULAR IS BEING SENT AT THE WRITTEN REQUEST OF THE INVESTOR, NO PUBLIC OFFERING OF THE OFFERED SECURITIES IS BEING MADE IN KUWAIT, AND NO MASS-MEDIA MEANS OF CONTACT ARE BEING USED.

NOTICE TO RESIDENTS OF THE NETHERLANDS

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

NOTICE TO RESIDENTS OF OMAN

THIS OFFERING CIRCULAR AND THE OFFERED SECURITIES ARE NOT AVAILABLE TO ANY MEMBER OF THE PUBLIC AND ARE RESTRICTED TO INVESTORS HAVING AN EXISTING BUSINESS RELATIONSHIP WITH THE INITIAL PURCHASER OR THE PLACEMENT AGENT. APPLICATION FOR THE OFFERED SECURITIES MADE BY OR ON BEHALF OF INVESTORS NOT HAVING AN EXISTING RELATIONSHIP WITH THE INITIAL PURCHASER OR THE PLACEMENT AGENT WILL NOT BE ACCEPTED. ANY INVESTOR THAT CONSIDERS PURCHASING THE OFFERED SECURITIES SHOULD CONSULT A PROFESSIONAL ADVISER BEFORE DOING SO.

NOTICE TO RESIDENTS OF QATAR

THIS OFFERING CIRCULAR IS BEING SENT ONLY TO SOPHISTICATED INDIVIDUAL AND INSTITUTIONAL INVESTORS RESIDENT OR BASED IN THE STATE OF QATAR AT THE REQUEST OF SUCH INVESTORS. THE OPPORTUNITY OF ACQUIRING THE OFFERED SECURITIES AND ANY OFFER IS NOT AND SHALL NOT BE MARKETED AS A PUBLIC OFFER WITHIN THE STATE OF QATAR. NONE OF THE INITIAL PURCHASER, THE PLACEMENT AGENT THE COLLATERAL MANAGER, THE SWAP COUNTERPARTY, THE ISSUER, THE CO-ISSUER, THE TRUSTEE OR ANY OF THEIR RESPECTIVE AFFILIATES OR REPRESENTATIVES ARE REGULATED BY THE QATAR CENTRAL BANK, AND DO NOT CONDUCT OR PURPORT TO CONDUCT BUSINESS WITHIN THE STATE OF QATAR. EACH PROSPECTIVE INVESTOR SHOULD CAREFULLY READ THIS OFFERING CIRCULAR AND SHOULD CONSULT ITS OWN INDEPENDENT LEGAL AND TAX ADVISORS AS TO ALL MATTERS CONCERNING THE OFFERING CIRCULAR AND ANY INVESTMENT IN THE OFFERED SECURITIES.

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NOTICE TO RESIDENTS OF SAUDI ARABIA

THE OFFERING OF OFFERED SECURITIES AS DESCRIBED HEREIN CONSTITUTES AN EXEMPT OFFER WITHIN THE MEANING OF THE SAUDI ARABIAN OFFERS OF SECURITIES REGULATIONS. THE SAUDI ARABIAN OFFERS OF SECURITIES REGULATIONS STATES THAT IF THE OFFERED SECURITIES ARE OFFERED TO NO MORE THAN 60 OFFEREES IN THE KINGDOM OF SAUDI ARABIA AND THE MINIMUM CONSIDERATION PAYABLE IS NOT LESS THAN THE U.S. DOLLAR EQUIVALENT OF SAUDI RIYALS ONE MILLION PER OFFEREE, SUCH OFFER OF OFFERED SECURITIES SHALL BE DEEMED TO BE AN "EXEMPT OFFER" FOR THE PURPOSES OF THE SAUDI ARABIAN OFFERS OF SECURITIES REGULATIONS. RECIPIENTS ARE INFORMED THAT ARTICLE 19 OF THE SAUDI ARABIAN OFFERS OF SECURITIES REGULATIONS PLACES RESTRICTIONS ON SECONDARY MARKET SALES OF THE OFFERED SECURITIES.

NOTICE TO RESIDENTS OF SINGAPORE

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

NOTICE TO RESIDENTS OF SWITZERLAND

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

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NOTICE TO RESIDENTS OF THE UNITED ARAB EMIRATES

THIS OFFERING CIRCULAR AND ANY RELATED PROMOTIONAL MATERIALS HAVE BEEN DELIVERED TO POTENTIAL UNITED ARAB EMIRATES INVESTORS OUTSIDE THE UNITED ARAB EMIRATES. NO PROMOTIONAL PRESENTATIONS HAVE BEEN MADE WITHIN THE UNITED ARAB EMIRATES. PAYMENT FOR AND DELIVERY OF THE OFFERED SECURITIES IS MADE TO AN ACCOUNT OUTSIDE THE UNITED ARAB EMIRATES AND THE SITE OF THE SALE OF THE OFFERED SECURITIES IS A JURISDICTION OTHER THAN THE UNITED ARAB EMIRATES.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

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

AVAILABLE INFORMATION

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

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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, the timing and frequency of payments under the Credit Default Swaps and the Hedging Credit Default Swaps and mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from, and other payments in respect of, the Collateral, the existence of available funds caps or other caps on the interest rate payable on the Reference Obligations, the Deliverable Obligations and the Underlying Assets, and timing mismatches on the reset of the interest rates between the Reference Obligations, the Underlying Assets and the Notes, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Initial Purchaser, the Placement Agent or any of their respective affiliates or any other person or entity of the results that will actually be achieved by the Issuer.

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

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THE OFFERING

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

Securities Offered:

U.S.$24,375,000 aggregate principal amount Class A First Priority Secured Floating Rate Notes due 2040 (the "Class A Notes").

U.S.$ 41,250,000 aggregate principal amount Class B Second Priority Secured Floating Rate Notes due 2040 (the "Class B Notes").

U.S.$ 20,625,000 aggregate principal amount Class C Third Priority Secured Deferrable Floating Rate Notes due 2040 (the "Class C Notes").

U.S.$ 24,375,000 aggregate principal amount Class D Fourth Priority Secured Deferrable Floating Rate Notes due 2040 (the "Class D Notes together with the Class A Notes, the Class B Notes and the Class C Notes, the "Notes").

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

40,500 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share (the "Preference Shares" and, together with the Notes, the "Offered Securities").

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 LaSalle Bank National Association, as trustee (in such capacity, together with its successors in such capacity, the "Trustee"). The Swap Counterparty, the Collateral Manager and each Preference Shareholder will be express third party beneficiaries of the Indenture. See "Description of the Notes—Status and Security" and "—The Indenture." The Notes will be limited-recourse debt obligations of the Co-Issuers secured solely by a pledge of the Collateral by the Issuer to the Trustee pursuant to the Indenture for the benefit of the holders from time to time of the Notes, the Swap Counterparty, the Collateral Administrator, the Collateral Manager 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 the Closing Date.

The Preference Shares will be issued pursuant to the Second 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

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Closing Date as reflected in the minutes thereof (the "Resolutions") and administered in accordance with a Preference Share Paying Agency Agreement, dated as of the Closing Date (the "Preference Share Paying Agency Agreement" and, together with the Issuer Charter and the Resolutions, the "Preference Share Documents"), among the Issuer, LaSalle Bank National Association, as preference share paying agent (in such capacity, the "Preference Share Paying Agent") and Maples Finance Limited, as preference share registrar (in such capacity, the "Preference Share Registrar"). The Preference Shares are equity of the Issuer and will not be secured by the Collateral securing the Notes.

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

No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and accrued and unpaid interest on, the Notes of each Class that is Senior to such Class and that remains outstanding have been paid in full and the Supersenior Notional Amount and the Supersenior Funded Amount have been reduced to zero. See "Description of the Notes—Priority of Payments."

The Co-Issuers:

Khaleej II CDO, Ltd. (the "Issuer") is an exempted company incorporated under Cayman Islands law. The entire share capital of the Issuer consists of (a) 250 ordinary shares, par value U.S.$1.00 per share, each of which will be held in trust for charitable purposes by Maples Finance Limited in the Cayman Islands (the "Share Trustee") under the terms of a declaration of trust, and (b) 40,500 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share. The Indenture will provide that the activities of the Issuer are limited to (1) entering into Credit Default Swaps and Hedging Credit Default Swaps and investing in Eligible Investments, UA

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Eligible Investments and Underlying Assets, (2) selling Deliverable Obligations and investing Deliverable Obligation Payments and Deliverable Obligation Sales Proceeds in Underlying Assets, (3) entering into and performing its obligations under the Indenture, the Collateral Management Agreement, the Administration Agreement, the Master Agreement, the Collateral Administration Agreement, the Purchase Agreement, the Total Return Swap, the Supersenior Swap and the Preference Share Paying Agency Agreement, (4) issuing and selling the Offered Securities, (5) pledging the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties, (6) owning the limited liability company interests of the Co-Issuer and (7) other activities incidental to the foregoing.

Khaleej II CDO 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 Credit Default Swaps, the Hedging Credit Default Swaps, the Underlying Assets, Eligible Investments and UA Eligible Investments, and its rights under the Total Return Swap and the Supersenior Swap and under certain other agreements entered into as described herein.

The Co-Issuer will be capitalized only to the extent of its U.S.$250 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 Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap or other assets held by the Issuer and will have no claim against the Issuer in respect of the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap or otherwise.

The Collateral Manager:

ACA Management, L.L.C., a Delaware limited liability company ("ACA Management" or the "Collateral Manager"), will enter into a Collateral Management Agreement with the Issuer (the "Collateral Management Agreement").

Pursuant to the Collateral Management Agreement, the Collateral Manager will, based on the Collateral Manager's research, credit analysis and judgment, (i) make recommendations regarding the selection, entry into, termination and assignment of Credit Default Swaps and Hedging Credit Default Swaps and, under certain circumstances, early termination of the Total Return Swap and the Supersenior Swap, in each case, by the Issuer, (ii) select Reference Obligations with respect to the Credit Default Swaps and Hedging

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Credit Default Swaps on behalf of the Issuer, (iii) invest and reinvest on behalf of the Issuer in Eligible Investments and (iv) arrange for the sale or liquidation of Deliverable Obligations received in settlement of Credit Default Swaps, in each case, subject to the restrictions set forth in the Indenture and the Collateral Management Agreement.

The Collateral Manager and/or its Affiliates will invest in the Preference Shares on the Closing Date. The total aggregate amount of such investment will be equal to approximately 13.89% of the Preference Shares. The Collateral Manager and/or its Affiliates will agree to hold 3,000 Preference Shares until the Preference Share Holding Termination Date.

For a summary of the provisions of the Collateral Management Agreement and certain other information concerning the Collateral Manager and key individuals associated therewith who will be managing the Issuer's portfolio, see "The Collateral Manager" and "The Collateral Management Agreement."

Use of Proceeds:

The gross proceeds received from the issuance and sale of the Offered Securities will be approximately U.S.$151,125,000. The net proceeds from the issuance and sale of the Offered Securities are expected to be approximately U.S.$150,000,000, which reflects the payment from such gross proceeds of organizational fees and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers and the Initial Purchaser), the expenses of offering the Offered Securities and the initial deposits into the Expense Account. Any such proceeds not deposited into the Expense Account will be deposited into the UA Collateral Subaccount and invested in the Initial Underlying Assets. See "Security for the Notes."

Interest Payments on the Notes:

The Class A Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 0.55%. The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 0.85%. The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 1.50%. The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 2.85%. 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 to but excluding the first applicable Distribution Date and (ii) thereafter, for the period from and including the Distribution Date immediately following the immediately preceding Interest Period, to but excluding the next succeeding Distribution Date. Accrued and unpaid interest will be payable quarterly in arrears on each Distribution Date, if and to the extent that funds are available on such Distribution Date in

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accordance with the Priority of Payments set forth herein. See "Description of the Notes—Interest."

Notwithstanding anything to the contrary above, with respect to each Distribution Date after the Initial Redemption Date, if any Notes remain outstanding, interest will accrue on the outstanding principal amount of such Notes from and including the Initial Redemption Date (and each Distribution Date after the Initial Redemption Date) to such Distribution Date at a Note Interest Rate of LIBOR, and a failure to pay the full amount of interest due on the Notes on any Distribution Date after the Initial Redemption Date will not be a Default or an Event of Default, but such interest will be payable (together with interest at LIBOR) on the next Distribution Date (if any) on which funds are available in accordance with the Priority of Payments.

So long as any Class A 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") will be deferred and added to the Aggregate Outstanding Amount of the Class C Notes and will 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 Notes or Class B Notes are then outstanding.

So long as any Class A 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") will be deferred and added to the Aggregate Outstanding Amount of the Class D Notes and will 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 Notes, Class B Notes or Class C Notes are then outstanding.

Distributions on the Preference Shares:

On each Distribution Date, to the extent funds are available therefor, Interest Proceeds will be released from the lien of the Indenture for payment to the Preference Share Paying Agent, but only after the payment of interest on the Notes 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 holders of the Preference Shares (the "Preference

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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."

Average Life and Duration:

The stated maturity of the Notes is September, 20 2040 or, if it is not a Business Day, the next succeeding Business Day (with respect to each Class of Notes, the "Stated Maturity"). Each Class of Notes will mature at the Stated Maturity unless redeemed or repaid prior thereto; *provided* that, if the Holdback Amount is greater than zero, there is a Net Unreimbursed Floating Amount or there are any Deliverable Obligations credited to the DO Collateral Subaccount on the Stated Maturity, a portion of the principal amount of the Notes may not be paid on the Stated Maturity. In such event, the remaining principal amount of the Notes will be due and payable no later than September 20, 2042 (or, if it is not a Business Day, the next succeeding Business Day) (the "Extended Maturity Date"). The average life of each Class of Notes and the duration of the Preference Shares may be less than the number of years until the Stated Maturity of the Notes. See "Maturity, Prepayment and Yield Considerations" and "Risk Factors—Projections, Forecasts and Estimates."

Reinvestment Period:

During the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, will use its commercially reasonable efforts to designate Reference Obligations in an aggregate Reference Obligation Notional Amount not to exceed the Available Reinvestment Amount and provide for the entry by the Issuer into additional Credit Default Swaps with the Swap Counterparty. The Reinvestment Period may terminate prior to September 2009 if any one of the adverse circumstances described in the definition of the Reinvestment Period occur. During the Reinvestment Period, the Collateral Manager will only cause the Issuer to enter into Credit Default Swaps that satisfy the Eligibility Criteria and, in addition, the Collateral Manager will only select Reference

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Obligations that satisfy the Trading Criteria. See "Security for the Notes—Reinvestment Period" and "—Entry into Credit Default Swaps."

During the Reinvestment Period, if in its sole discretion, the Collateral Manager determines that a Reference Obligation has become either a Credit Improved Reference Obligation or a Credit Risk Obligation, it may cause the Issuer to enter into a Hedging Credit Default Swap in respect thereof. The Issuer may not enter into a Hedging Credit Default Swap during any Physical Settlement Period thereunder. The Collateral Manager may, after the Reinvestment Period has ended, continue to select Credit Risk Reference Obligations and cause the Issuer to enter into Hedging Credit Default Swaps with respect to those Reference Obligations.

The Issuer may not enter into any Hedging Credit Default Swap if, after giving effect to the execution thereof, the Interest Coverage Test or the Weighted Average Spread Test (each, a "Hedging Credit Default Swap Test") would not be satisfied (or, if any such test was not satisfied immediately prior to execution of such Hedging Credit Default Swap, such test would not be further from being satisfied). The Issuer will be able to enter into additional Credit Default Swaps during the Reinvestment Period having a Reference Obligation Notional Amount up to the aggregate Reference Obligation Notional Amount of the Hedging Credit Default Swaps. See "Security for the Notes—Hedging Credit Default Swaps."

Principal Repayment of the Notes:

All Principal Proceeds will be applied on each Distribution Date after the Supersenior Notional Amount and the Supersenior Funded Amount have been reduced to zero and after paying other amounts in accordance with the Priority of Payments, to pay principal of the Notes. The amount and frequency of principal payments on a Class of Notes will depend upon, among other things, the amount and frequency of Principal Payments on the Reference Obligations. During the Reinvestment Period, Principal Payments on the Reference Obligations will not result in a reduction in the Supersenior Notional Amount, the Supersenior Funded Amount or a payment of principal of the Notes unless the Collateral Manager elects not to enter into additional Credit Default Swaps with respect to such Principal Payments.

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, Mandatory Redemption or Accelerated Maturity Date and (b) on each Distribution Date after the Supersenior Notional Amount and the Supersenior Funded Amount have been reduced to zero, from Principal Proceeds in accordance with the Priority of Payments.

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On the Stated Maturity, the Mandatory Redemption Date, the Accelerated Maturity Date or the Redemption Date, all of the Collateral will be liquidated as described herein and applied, after paying certain other amounts, in accordance with the Priority of Payments, to pay the Supersenior Funded Amount and the Supersenior Funded Amount Interest, to pay principal of and accrued interest on the Notes in direct order of seniority and then to redeem the Preference Shares, except that, in the case of the Stated Maturity or the Mandatory Redemption Date, a portion of the Collateral equal to the Holdback Amount will not be liquidated.

In the event that the Holdback Amount is greater than zero on the Stated Maturity or the Mandatory Redemption Date, on the Notice Delivery Period Expiration Redemption Date, the Issuer will liquidate Underlying Assets with a principal amount or Certificate Balance equal to the Holdback Release Amount, and the Trustee will distribute the proceeds in accordance with the Priority of Payments.

On each Delivery Date thereafter, the Issuer will liquidate Underlying Assets sufficient to pay the Physical Settlement Amount to the Swap Counterparty.

In addition, on and after the Initial Redemption Date, (i) Deliverable Obligation Sales Proceeds realized upon the sale of the Deliverable Obligation received in exchange for a Physical Settlement Amount will be applied on the first Business Day after the Deliverable Obligation Sale Date and (ii) any Additional Fixed Amounts received by the Issuer from the Swap Counterparty will be applied on the Business Day following receipt, in each case in accordance with the Priority of Payments.

On any Distribution Date after the Supersenior Notional Amount and the Supersenior Funded Amount have been reduced to zero, Principal Proceeds will be released from the Collateral Account and will be applied in accordance with the Priority of Payments to pay principal of the Notes in direct order of seniority, with the principal of Class A Notes being paid prior to the payment of the principal of Class B Notes, the principal of Class B Notes being paid prior to the payment of the principal of Class C Notes and the principal of Class C Notes being paid prior to the payment of the principal of Class D Notes.

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

Optional Redemption and Tax Redemption of the Notes:

Subject to certain conditions described herein (i) on any Distribution Date prior to the Distribution Date in September

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2009, if a Downgrade Event has occurred or (ii) on the Distribution Date occurring in September 2009 or on any Distribution Date thereafter, the Issuer shall 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; *provided*, *however*, that if there is a Consolidation Redemption Event, the Swap Counterparty may direct the Issuer at any time to redeem the Notes, in whole but not in part, at the applicable Redemption Price. 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) or upon the occurrence of a Swap Counterparty Tax Event, the Issuer shall redeem the Notes (such redemption, a "Tax Redemption") on any Distribution Date, in whole but not in part, at the applicable Redemption Price therefor (A) in the case of a Tax Event, (i) at the direction of the holders of a majority in Aggregate Outstanding Amount of any Class of Notes that, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest due and payable to such Class on any Distribution Date (each such Class, an "Affected Class") or (ii) at the direction of a Special-Majority-in-Interest of Preference Shareholders and (B) in the case of a Swap Counterparty Tax Event, at the direction of the Swap Counterparty.

No Optional Redemption or Tax Redemption may be effected, however, unless the Available Redemption Funds are at least equal to an amount sufficient to pay (in accordance with the Priority of Payments) the Total Senior Redemption Amount. See "Description of the Notes—Liquidation Procedures."

Unless a Majority-in-Interest of Preference Shareholders have directed that an optional redemption of the Preference Shares also should occur on the Redemption Date, the Trustee will, to the extent practicable, not liquidate the portion of the Collateral identified by the Collateral Manager which is not required in order to obtain proceeds equal to the Total Senior Redemption Amount.

The applicable Liquidation Procedures summarized herein will be used to determine whether the Issuer or the Swap Counterparty is required to pay a Swap Termination Payment and, if so, the amount of the Swap Termination Payment. See "Description of the Notes—Liquidation Procedures." If the Issuer (i) is required to pay a Swap Termination Payment to the Swap Counterparty and (ii) as a result of such Swap Termination Payment, the Issuer is not able to satisfy the conditions in the Indenture in order to complete an Optional Redemption or a Tax Redemption, the Issuer will not be able to effect such Optional Redemption or Tax Redemption until such time as such conditions are satisfied. If the

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Swap Counterparty directs the Issuer to undertake an Optional Redemption or a Tax Redemption, neither the Issuer nor the Swap Counterparty will pay a Swap Termination Payment (other than any Unpaid Amounts).

Auction Call Redemption: If the Notes have not been redeemed in full prior to the Distribution Date occurring in September 2013, then a valuation of the Credit Default Swaps and the Hedging Credit Default Swaps will be conducted pursuant to the applicable Liquidation Procedures, and if certain conditions are satisfied, the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap will be terminated (or assigned) and the Notes will be redeemed on such Distribution Date. If such conditions are not satisfied, then such a valuation will be conducted on a quarterly basis until such conditions are satisfied and the Total Senior Redemption Amount is paid in respect of the Notes and the Preference Shares. See "Description of the Notes—Auction Call Redemption."

Mandatory Redemption: On the Stated Maturity of the Notes or in the event that, prior to such date, the Master Agreement (and the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap entered into thereunder) is terminated by the Issuer or by the Swap Counterparty as the result of an "event of default" or "termination event" under the Master Agreement, the Collateral (other than any Holdback Amount) will be liquidated in accordance with the Liquidation Procedures and the Notes will be redeemed (i) on the Distribution Date as of which such termination is effective or, if it is effective on a date that is not a Distribution Date, on the next succeeding Distribution Date or on the Stated Maturity, whichever is applicable, (ii) if there is a Holdback Amount, on the Notice Delivery Period Expiration Redemption Date and on the first Business Day after each Deliverable Obligation Sale Date thereafter until the Holdback Amount has been reduced to zero and there are no Deliverable Obligations credited to the DO Collateral Subaccount and (iii) if there is a Net Unreimbursed Floating Amount on the Initial Redemption Date, on the first Business Day after each Additional Fixed Amount Payment Date (a "Mandatory Redemption" and the date of each such redemption, the "Mandatory Redemption Date"). In the event that the proceeds of the Collateral are not sufficient to repay the Aggregate Outstanding Amount of the Notes or the Issuer is required to make a Swap Termination Payment to the Swap Counterparty or is required to establish a Holdback Amount, the holders of each Class of Notes and the Preference Shares will suffer a loss upon a Mandatory Redemption in inverse order of seniority.

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 will be redeemed, in whole

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but not in part, at the direction of a Majority-in-Interest of Preference Shareholders, at the redemption price therefor. See "Description of the Preference Shares—Optional Redemption."

Security for the Notes:

Pursuant to the Indenture, the Notes (together with the Issuer's obligations to the Secured Parties under the Indenture) will be secured by: (a) the Custodial Account, the Credit Default Swaps, the Hedging Credit Default Swaps and the Deliverable Obligations, (b) the Interest Collection Account, the Principal Collection Account, the Payment Account, the Expense Account, the Collateral Account, the Counterparty Collateral Account, all funds and other property standing to the credit of each such account, Eligible Investments, UA Eligible Investments and Underlying Assets 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 Master Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Total Return Swap and the Supersenior Swap, (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"). 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.

Credit Default Swaps:

On the Closing Date, the Issuer will enter into a 1992 ISDA Master Agreement (the "Master Agreement") with Merrill Lynch International (the "Swap Counterparty"), pursuant to which the Issuer and the Swap Counterparty will enter into the Credit Default Swaps, as well as the Hedging Credit Default Swaps, the Supersenior Swap and the Total Return Swap described below. Each Credit Default Swap will reference a single Reference Obligation, which will in all cases be an Asset-Backed Security.

Fixed Amount. Under each Credit Default Swap, the Swap Counterparty will pay a Fixed Amount to the Issuer five Business Days after each Reference Obligation Payment Date (except that the final Fixed Amount payment will be made on the fifth Business Day following the Effective Maturity Date) (each such date, a "Fixed Rate Payer Payment Date"). See "Security for the Notes—The Credit Default Swaps—Fixed Amounts."

Floating Amounts. Pursuant to each Credit Default Swap, the Issuer will make a payment to the Swap Counterparty in the event that any Writedown, Failure to Pay Principal or Interest Shortfall in respect of the Reference Obligation referenced by any Credit Default Swap occurs. A Writedown, Failure to Pay Principal or Interest Shortfall is also referred to as a "Floating Amount Event."

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If a Floating Amount Event occurs, the Issuer will pay to the Swap Counterparty a Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount, as applicable, on, in the case of a Writedown or a Failure to Pay Principal, the first Distribution Date, and in the case of an Interest Shortfall, on the first Fixed Rate Payer Payment Date, in either case, falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date with respect to a Reference Obligation, the fifth Business Day) after notice by the CDS Calculation Agent or the Swap Counterparty (each such date, a "Floating Rate Payer Payment Date"), *provided* that such notice must be given on or prior to the fifth Business Day following the Legal Final Maturity Date or Final Amortization Date with respect to such Reference Obligation. Each such notice must satisfy the requirements of a Notice of Publicly Available Information and show in reasonable detail how such Floating Amount was calculated. See "Security for the Notes—The Credit Default Swaps—Floating Amounts."

If an Interest Shortfall Payment Amount is payable by the Issuer on a Fixed Rate Payer Payment Date, the Fixed Amount will be reduced by the related Interest Shortfall Payment Amount. The Issuer will not, however, owe any Interest Shortfall Payment Amount in excess of the Fixed Amount payable on such date. See "Security for the Notes—The Credit Default Swaps—Fixed Amounts."

Additional Fixed Amounts. In the event that a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement (an "Additional Fixed Payment Event") in respect of a Reference Obligation occurs on or before 720 days following its Effective Maturity Date, the Swap Counterparty must pay the Issuer an amount equal to the related Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount, as applicable (each, an "Additional Fixed Amount"). Each Additional Fixed Amount will be payable on the first Additional Fixed Amount Payment Date falling at least two Business Days (or, in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day) after delivery of a notice by the CDS Calculation Agent or the Issuer that an Additional Fixed Amount is due (each, an "Additional Fixed Amount Payment Date"), *provided* that such notice is given no later than the fifth Business Day following the day that is 720 days after the Effective Maturity Date for the applicable Reference Obligation. Such notice must provide reasonable detail regarding how the applicable Additional Fixed Amount has been determined, but does not need to meet the requirements of a Notice of Publicly Available Information.

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See "Security for the Notes—The Credit Default Swaps—Additional Fixed Amounts."

Credit Events. If a Credit Event occurs with respect to a Reference Obligation, the Swap Counterparty may, by delivering a Credit Event Notice and a Notice of Publicly Available Information followed by a Notice of Physical Settlement, require the Issuer to pay a Physical Settlement Amount in exchange for a Deliverable Obligation. The Credit Events for each Credit Default Swap are a Failure to Pay Principal, a Writedown, a Distressed Ratings Downgrade, a Maturity Extension or a PIK Reference Obligation Event with respect to the related Reference Obligation. With respect to a Failure to Pay Principal or a Writedown, the Swap Counterparty has the option to declare a Credit Event or a Floating Amount Event. If a Failure to Pay Principal or a Writedown has previously been categorized as a Floating Amount Event and the Swap Counterparty has already delivered a Notice of Publicly Available Information with respect thereto, it will not be required to deliver such notice if it subsequently delivers a Notice of Physical Settlement with respect to such event. See "Security for the Notes—The Credit Default Swaps—Credit Events" and "—Physical Settlement."

Sale of Deliverable Obligations. The Collateral Manager will arrange for the sale by the Issuer of each Deliverable Obligation within the earlier of two years after its Delivery Date and the Business Day prior to the Extended Maturity Date, *provided* that on each Delivery Date prior to the Initial Redemption Date, if, after giving effect to delivery of any Deliverable Obligation, the Issuer is holding Deliverable Obligations in an aggregate par amount in excess of 15% of the Reference Pool Notional Amount on such Delivery Date, the Collateral Manager will use commercially reasonable efforts to sell Deliverable Obligations within 60 days following the Delivery Date of such Deliverable Obligation, such that the aggregate par amount of all Deliverable Obligations held by the Issuer is 15% or less of the Reference Pool Notional Amount. Deliverable Obligation Sales Proceeds (other than any portion constituting Interest Proceeds) will be applied, first, to pay any Supersenior Funded Amount, and the balance will be deposited into the UA Collateral Subaccount and invested in Underlying Assets. In addition, any Deliverable Obligation Payments (other than any portion constituting Interest Proceeds) will be applied, first, to pay any Supersenior Funded Amount, and the balance will be deposited into the UA Collateral Subaccount of the Collateral Account and invested in Underlying Assets.

The Reference Pool Notional Amount. The Reference Pool Notional Amount of the Credit Default Swaps that the Issuer expects to enter into on the Closing Date is approximately U.S.$750,000,000. However, there may have occurred prior to the Closing Date, or may occur on the Closing Date, Principal

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Payments on the Reference Obligations which will cause the Reference Pool Notional Amount to be less than U.S.$750,000,000 on the Closing Date. The Reference Pool Notional Amount is subject to increase and decrease as provided herein; *provided* that the portion of the Reference Pool Notional Amount that is not Hedged Credit Default Swaps will never be greater than U.S.$750,000,000.

The Credit Default Swaps entered into by the Issuer will, on the Closing Date, have the characteristics and satisfy the criteria, including the Concentration Limitations, set forth herein under "Security for the Notes—Credit Default Swaps" and "—Eligibility Criteria." In addition, Credit Default Swaps entered into during the Reinvestment Period must satisfy the Eligibility Criteria and the Trading Criteria.

Hedging Credit Default Swaps:

The Issuer will not have the right to terminate any Credit Default Swap. During the Reinvestment Period, the Collateral Manager may, if, in its sole discretion, it determines that a Reference Obligation has either declined or improved in credit quality (a "Credit Improved Reference Obligation" or a "Credit Risk Reference Obligation," respectively), cause the Issuer to enter into a credit default swap under which the Issuer buys protection from the Swap Counterparty with respect to the Credit Improved Reference Obligation or Credit Risk Reference Obligation (each, a "Hedging Credit Default Swap"). The Issuer may not enter into a Hedging Credit Default Swap with respect to any Credit Default Swap during any Physical Settlement Period thereunder. Each Hedging Credit Default Swap will be evidenced by a confirmation (a "Hedging Credit Default Swap Confirmation") that has the same terms as the original Credit Default Swap, and will reference the same Reference Obligation, except that (i) the Issuer will be the credit protection buyer and the Swap Counterparty will be the credit protection seller, (ii) the Fixed Rate payable by the Issuer under the Hedging Credit Default Swap will be determined by the Swap Counterparty as described under "Security for the Notes–Hedging Credit Default Swaps" and (iii) the Effective Date of the Hedging Credit Default Swap will be different, and it will not affect the obligation of the Swap Counterparty to pay to the Issuer under the Credit Default Swap any Additional Fixed Amounts with respect to Floating Amounts paid by the Issuer prior to such Effective Date. The Issuer will not be exposed to any credit risk under a Credit Default Swap if a Hedging Credit Default Swap has been entered into with respect to the same Reference Obligation, except to the credit risk of the Swap Counterparty itself. If the Issuer enters into a Hedging Credit Default Swap during the Reinvestment Period, the Issuer will be permitted to enter into additional Credit Default Swaps in an aggregate Reference Obligation Notional Amount up to the Reference Obligation Notional Amount of the Hedging Credit Default Swap.

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The Collateral Manager's ability to enter into Hedging Credit Default Swaps in respect of Credit Risk Reference Obligations will continue after the end of the Reinvestment Period.

The Total Return Swap:

The Swap Counterparty and the Issuer will enter into separate total return swap transactions under the Master Agreement (the "Total Return Swap") in respect of Underlying Assets and UA Eligible Investments. On the Closing Date, the Issuer is expected to purchase Underlying Assets that meet the Underlying Assets Criteria with a principal amount or Certificate Balance thereof equal to at least U.S.$150,000,000, each of which will be the subject of a total return swap transaction under the Total Return Swap.

Pursuant to the Total Return Swap, the Issuer will pay to the Swap Counterparty the Underlying Assets Interest Distribution with respect to each such Underlying Asset and UA Eligible Investment. On each Swap Counterparty TRS Payment Date, the Swap Counterparty will pay to the Issuer the Total Return Swap LIBOR Payment.

On each Distribution Date that there is a Principal Amortization Release Amount, the Issuer will propose to the Swap Counterparty for its approval the liquidation of one or more Underlying Assets in a principal amount or Certificate Balance equal to the Principal Amortization Release Amount. If the Issuer and the Swap Counterparty do not agree on the Underlying Assets to be liquidated, the Issuer will have the right to designate (in its sole discretion) those Underlying Assets to be so liquidated. Upon such liquidation, the TRS Outstanding Principal Amount of the transactions in respect of such Underlying Assets will be reduced by the principal amount or Certificate Balance of the liquidated Underlying Assets. On the Notice Delivery Period Expiration Redemption Date, the Issuer will propose to the Swap Counterparty for its approval the liquidation of one or more Underlying Assets in a principal amount or Certificate Balance equal to the Holdback Release Amount. If the Issuer and the Swap Counterparty do not agree on the Underlying Assets to be liquidated, the Issuer will have the right to designate (in its sole discretion) those Underlying Assets to be so liquidated. Upon such liquidation, the TRS Outstanding Principal Amount of the transactions in respect of such Underlying Assets will be reduced by the principal amount or Certificate Balance of the liquidated Underlying Assets. The Issuer will have the option to sell the Underlying Assets to the Swap Counterparty at par or to sell the Underlying Assets to a third party. If the Underlying Assets are sold to a third party, the Issuer will pay to the Swap Counterparty the Final Total Return Amount, if positive, or the Swap Counterparty will pay to the Issuer the Final Total Return Amount, if negative.

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In addition, following the occurrence of a Floating Amount Event (other than an Interest Shortfall) or a Credit Event in respect of an Unhedged Credit Default Swap and the determination of a Floating Amount or Physical Settlement Amount thereunder, on the related Floating Amount Payment Date or the Delivery Date, as applicable, the Issuer will deliver to the Swap Counterparty a principal amount or Certificate Balance of Underlying Asset(s) or portions thereof) designated by the Swap Counterparty, in its sole discretion, equal to such Floating Amount or Physical Settlement Amount. The Swap Counterparty will not make any payment for the Underlying Asset(s) (or portion(s) thereof) so delivered, and the TRS Outstanding Principal Amount(s) of such Underlying Asset(s) will be reduced by the principal amount or Certificate Balance so delivered.

After the Closing Date, UA Principal Payments on the Underlying Assets, Deliverable Obligation Sales Proceeds and Deliverable Obligation Payments (in each case, other than any portion thereof constituting Interest Proceeds), and Additional Fixed Amounts (other than Interest Shortfall Reimbursements) will be deposited into the UA Collateral Subaccount. Whenever cash in the UA Collateral Subaccount exceeds U.S.$100,000, the Swap Counterparty may propose to the Issuer or the Issuer may propose to the Swap Counterparty that the TRS Outstanding Principal Amount of one or more Underlying Assets be increased or that all or a portion of one or more Underlying Assets be replaced by one or more Additional Underlying Assets meeting the Underlying Assets Criteria. In the event that the Issuer and the Swap Counterparty cannot agree on such increase or replacement within three Business Days following such date, the Swap Counterparty will have the right (in its sole discretion) to determine the Additional Underlying Asset(s) to be acquired by the Issuer in respect of such amounts in the UA Collateral Subaccount. Until such time as amounts in the UA Collateral Subaccount exceed U.S.$100,000, such amounts will be invested in UA Eligible Investments.

In connection with an Optional Redemption, Tax Redemption or Auction Call Redemption or the liquidation of the Collateral following an Event of Default, the TRS Calculation Agent will calculate the Final Price of each Underlying Asset for which the TRS Outstanding Principal Amount is greater than zero. The Final Price will be determined based on the highest firm price (excluding accrued interest) for the purchase of the entire TRS Outstanding Principal Amount of each such Underlying Asset. The Issuer will deliver each such Underlying Asset to the highest bidder for such Underlying Asset.

The Issuer will have the right to require the TRS Calculation Agent to request as many as three firm bids for the Underlying Asset, from each of three market-makers or other market

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participants designated by the Issuer and agreed to by the TRS Calculation Agent. The Swap Counterparty or its designated affiliate may be one of such three market-makers. If no firm bid is obtained for an Underlying Asset then the Final Price shall be deemed to be zero percent.

If, based on the Final Price, the Final Total Return Amount for an Underlying Asset is positive, the Issuer will pay to the Swap Counterparty such Final Total Return Amount. If the Final Total Return Amount is negative, the Swap Counterparty will pay to the Issuer the absolute value of such amount.

The Swap Counterparty may elect to replace all or a portion of an Underlying Asset under certain circumstances, including on the occurrence of a Ratings Event. See "The Total Return Swap–Ratings Event." In addition, the Swap Counterparty may terminate the Total Return Swap, in the case of clauses (ii) and (iii) below, either in whole or with respect to a specific Underlying Asset, upon the occurrence of (i) an Underlying Asset Withholding Event with respect to such Underlying Asset, (ii) a Voting Rights Event, (iii) a Credit Enhancement Event or (iv) if the Notional Amount, together with the aggregate principal amount or Certificate Balance of Deliverable Obligations in the DO Collateral Subaccount, is less than U.S.$30,000,000 (each of the events described in clauses (i) through (iv), inclusive, an "Optional Termination Event"). See "The Total Return Swap–Optional Termination."

Liquidation of the Collateral:

On the Stated Maturity, or earlier in connection with any Optional Redemption, Tax Redemption, Auction Call Redemption, Mandatory Redemption or Accelerated Maturity Date, the Underlying Assets, the Eligible Investments and other Collateral will be liquidated and the Credit Default Swaps and the Hedging Credit Default Swaps will be terminated in accordance with the Liquidation Procedures, except that, in the case of the Stated Maturity or on the Mandatory Redemption Date, a portion of the Collateral equal to the Holdback Amount will not be liquidated. See "Description of the Notes—Liquidation Procedures."

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, (iii) any Swap Termination Payment due from the Issuer to the Swap Counterparty, (iv) any amount owed by the Issuer to the Swap Counterparty pursuant to the Supersenior Swap and (v) principal of and interest (including the Class C Deferred Interest Amount, Class D 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

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payment of the costs and expenses of such liquidation, the establishment of adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer, the return of U.S.$250 of capital contributed to the Issuer by, and the payment of a U.S.$250 profit fee to, the owner of the Issuer's ordinary shares, will be distributed to the Preference Shareholders in accordance with the Preference Share Documents.

The Indenture 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 Extended Maturity Date, 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 and (iii) at any time after the Notes are paid in full, upon the shareholders' determination to dissolve the Issuer.

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.

Supersenior Swap:

On the Closing Date, the Issuer will hold U.S.$150,000,000 principal amount of the Initial Underlying Assets, but will have credit exposure to a Reference Portfolio which, as of the Closing Date, is expected to have an aggregate Reference Obligation Notional Amount of U.S.$750,000,000. The U.S.$600,000,000 difference between these two amounts is the initial notional amount (the "Initial Supersenior Notional Amount") of the "supersenior" tranche of credit exposure under the portfolio of Credit Default Swaps. The Issuer will not issue securities to fund its exposure to this supersenior tranche of credit risk. Instead, the Issuer will enter into a swap (the "Supersenior Swap") with the Swap Counterparty pursuant to which it will pay the Supersenior CDS Premium to the Swap Counterparty on each Distribution Date in exchange for the Swap Counterparty's assumption of such credit risk.

The Supersenior Notional Amount will be reduced on each Distribution Date by the Aggregate Reference Portfolio Amortization Amount for the Due Period related to such Distribution Date until such Supersenior Notional Amount is reduced to zero. See "The Supersenior Swap."

Pursuant to the Supersenior Swap, the Issuer will pay to the Swap Counterparty on each Payment Date the Supersenior CDS Premium. On any date on which the Aggregate Portfolio Loss Amount exceeds the Supersenior Threshold Amount, the Swap Counterparty will pay to the Issuer any Writedown Amount,

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Principal Shortfall Amount or Physical Settlement Amount owed by the Issuer to the Swap Counterparty under any Credit Default Swap. Once such a payment is made by the Swap Counterparty, any Additional Fixed Amounts (other than an Interest Shortfall Reimbursement Amount), Deliverable Obligation Sales Proceeds (other than any portion constituting Interest Proceeds) or Deliverable Obligation Payments (other than any portion constituting Interest Proceeds) received by the Issuer will be paid to the Swap Counterparty until such payment by the Swap Counterparty has been reimbursed. The amount paid by the Swap Counterparty and not reimbursed by the Issuer is the "Supersenior Funded Amount." The Issuer will pay to the Swap Counterparty interest on such Supersenior Funded Amount at a rate equal to the Supersenior Rate; *provided* that, on the Business Day following the Funded Amount Trigger Date, the Swap Counterparty will pay to the Issuer any interest received from the Issuer on the Supersenior Funded Amount which remains outstanding on the Funded Amount Trigger Date. In addition, on and after the Physical Settlement Trigger Date, the Supersenior Swap requires the Issuer to deliver to the Swap Counterparty each Deliverable Obligation (or, on the Physical Settlement Trigger Date, a portion thereof) against payment by the Swap Counterparty under the Supersenior Swap of the related Physical Settlement Amount. As a result, the Swap Counterparty will receive all sale proceeds and income on such Deliverable Obligations.

Plan of Distribution:

The Offered Securities are being offered for sale in an initial distribution by the Issuer and Merrill Lynch International (the "Initial Purchaser") to investors (the "Original Purchasers") (a) in the United States which are Qualified Institutional Buyers ("Qualified Institutional Buyers") as defined in Rule 144A ("Rule 144A") of the Securities Act of 1933, as amended (the "Securities Act") or Accredited Investors ("Accredited Investors") within the meaning of Rule 501(a) under the Securities Act in reliance on an exemption from registration under the Securities Act, and, in each case, Qualified Purchasers, acquiring the Offered Security for their own accounts for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A) and (b) outside the United States which are not "U.S. Persons" as such term is defined in Regulation S ("Regulation S") under the Securities Act, 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. Those Offered Securities placed by the Placement Agent for sale in an initial distribution by the Issuer are being offered only outside of the United States to Original Purchasers which are not U.S. Persons in reliance on Regulation S and in accordance with any applicable securities laws of any relevant jurisdiction. A "Qualified Purchaser" is (i) a "qualified purchaser" as defined in the

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Investment Company Act of 1940, as amended (the "Investment Company Act"), (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 of the Investment Company Act or (iii) a company beneficially owned exclusively by one or more such "qualified purchasers" and/or "knowledgeable employees." See "Plan of Distribution" and "Transfer Restrictions."

Ratings:

It is expected that the Class A Notes will be rated "AAA" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), that the Class B Notes will be rated at least "AA" by Standard & Poor's, that the Class C Notes will be rated at least "A" by Standard & Poor's and that the Class D Notes will be rated at least "BBB" by Standard & Poor's. The ratings assigned by Standard & Poor's to the Class A Notes and the Class B Notes address the timely payment of interest and ultimate payment of principal on each such Class of Notes at its Stated Maturity. The ratings assigned by Standard & Poor's to the Class C Notes and the Class D Notes address the ultimate payment of interest (including interest on all Class C Deferred Interest Amounts and Class D Deferred Interest Amounts) and principal on such Class of Notes at its Stated Maturity. The Preference Shares will not be rated by any rating agency.

Minimum Denominations:

The Notes will be issuable in minimum denominations of U.S.$500,000 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 and Class D Notes may fail to be in an amount which is an integral multiple of U.S.$1,000 due to the addition to the principal amount thereof of Class C Deferred Interest Amount or Class D Deferred Interest Amount, as applicable. See "Transfer Restrictions."

The Issuer will, prior to the Closing Date, be authorized to issue 40,500 Preference Shares, par value U.S.$0.01 per share, all of which will be issued on the Closing Date. Each Preference Share will have a liquidation preference of U.S.$1,000 per share.

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

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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 a common depositary (the "Common Depositary") for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Interests in the Regulation S Global Notes will be shown on records maintained by, and transfers thereof will be effected only in accordance with the rules and procedures of, Euroclear and Clearstream, Luxembourg and, to the extent applicable, the Common Depositary.

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 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.

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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, (b) effected in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 903 or Rule 904 of Regulation S, (c) in compliance with the certification (if any) and other requirements set forth in the Indenture and (d) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

No Note (or any interest therein) may be transferred, and neither the Trustee nor the Note Registrar will recognize any such transfer, unless (a) such transfer is made in a manner exempt from registration under the Securities Act, (b) such transfer is made in denominations greater than or equal to the minimum denomination therefor, (c) such transfer would not have the effect of requiring either of the Co-Issuers or the Collateral to register as an investment company under the Investment Company Act and (d) the transferee is able to make all applicable certifications and representations required by the relevant transfer certificate attached as an exhibit to the Indenture (if the Indenture requires that a transfer certificate be delivered in connection with such a transfer). Notwithstanding the foregoing, (x) an owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification; *provided* that (1) such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected through Euroclear or Clearstream, Luxembourg in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures and (2) any transfer not effected in an offshore transaction in accordance with Rule 904 of Regulation S may be made only upon provision to the Note Registrar of written certification from the transferee and transferor in the form provided for in the Indenture and (y) an owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification. See "Description of the Notes—Form, Denomination, Registration and Transfer" and "Transfer Restrictions."

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner of (A) a Regulation S Note (or any interest therein) is a U.S. Person or (B) a Restricted Note is not a Qualified Institutional Buyer (or, in the case of an Original Purchaser of such Restricted Note, an Accredited Investor) and also a Qualified Purchaser, the Co-Issuers shall require, by notice to such holder, that such holder sell all of its right, title and interest to such Note (or interest therein) to a Person that is (1) not a U.S. Person (in the

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case of a person acquiring its interest through a Regulation S Global Note) or (2) in the case of a person acquiring its interest through a Restricted Note, both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee and approved by the Collateral Manager 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 acquiring its interest through a Regulation S Note) or (B) in the case of a person acquiring its interest through a Restricted Note, is a (a) Qualified Institutional Buyer and (b) a Qualified Purchaser and (ii) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner and such Note shall be deemed not to be outstanding for the purpose of any vote or consent of 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 registered in the name of the legal and beneficial owner thereof (or a nominee acting on behalf of the disclosed beneficial owner thereof) and will be evidenced by certificates in definitive form.

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 issued in registered form and evidenced by either (i) one or more global preference share certificates ("Regulation S Global Preference Shares") without interest coupons attached and which shall be deposited with the Common Depositary and registered in the name of the Common Depositary (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 form, registered in the name of the legal and beneficial owner thereof (or a nominee acting on behalf of the disclosed beneficial owner thereof) ("Regulation S Definitive Preference Shares"). Interests in the Regulation S Global Preference Shares will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and

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Clearstream, Luxembourg and, to the extent applicable, the Common Depositary. 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.

The Preference Share Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner of Preference Shares (A) in the case of Regulation S Preference Shares, is a U.S. Person (within the meaning of Regulation S under the Securities Act) and (B) in the case of Restricted Definitive Preference Shares, is not both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the

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Securities Act) and (ii) a Qualified Purchaser, then the Issuer shall require, by notice to such holder, that such holder sell all of its right, title and interest to such Preference Shares (or interest therein) to a person that will take delivery of a Restricted Definitive Preference Share and that is both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (a) upon direction from the Issuer, the Preference Share Paying Agent, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale arranged by the Collateral Manager on behalf of the Issuer (conducted by an investment bank selected by the Preference Share Paying Agent and approved by the Collateral Manager 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 will take delivery of a Restricted Definitive Preference Share and that certifies to the Preference Share Paying Agent, the Collateral Manager, the Preference Share Registrar and the Issuer, in connection with such transfer, that such person is a both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Restricted 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), (ii) a Qualified Purchaser and (iii) not a Benefit Plan Investor or a Controlling Person and (b) pending such transfer, no further payments will be made in respect of such Preference Share held by such beneficial owner.

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

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Preference Share Paying Agency Agreement, (e) such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction and (f) such transferee executes a letter in the form of Exhibit A.

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

Original Purchasers that are Benefit Plan Investors or Controlling Persons may not purchase interests in Regulation S Preference Shares on the Closing Date. Original Purchasers that are Benefit Plan Investors or Controlling Persons may not purchase Restricted Definitive Preference Shares on the Closing Date if, after giving effect to such purchase, 25% or more of the Preference Shares would be owned by Benefit Plan Investors (excluding for purposes of such calculation Preference Shares owned by Controlling Persons). Subsequent to the Closing Date, no Restricted Definitive Preference Share or interest in a Regulation S Preference Share may be transferred to a Benefit Plan Investor. The Preference Share Paying Agency Agreement provides that if the Issuer determines that any beneficial owner of a Preference Share (other than an Original Purchaser of a Restricted Definitive Preference Share) is a Benefit Plan Investor or a Controlling Person, or that an Original Purchaser did not disclose at the time of its acquisition of such interest whether it is a Benefit Plan Investor (including insurance company general accounts with assets constituting plan assets) or a Controlling Person, or, subsequent to the purchase of a Preference Share such beneficial owner is or has become a Benefit Plan Investor (including insurance company general accounts with assets constituting plan assets) or a Controlling Person, then the Issuer shall require that such beneficial owner sell all of its right, title and interest in or to such Preference Shares as further described herein under "Description of the Preference Shares—Registration and Transfer."

In addition, no Reg Y Institution may transfer any Preference Shares held by it to any person other than (a) a person or group of persons under common control that controls the Issuer without reference to any Preference Shares transferred to such person or group by such Reg Y Institution (a "Controlling Party"), (b) a person or persons designated by a Controlling Party, (c) in a widespread public distribution as part of a public offering, (d) in amounts such that, after giving effect thereto, no single transferee and its affiliates will hold more than 2% of the aggregate number

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	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."
Listing:	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Daily Official List and trading on its regulated market, and application has been 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. See "Listing and General Information."
Irish Listing Agent; Irish Paying Agent:	McCann FitzGerald Listing Services Limited is expected to be the Irish Listing Agent and Custom House Administration and Corporate Services Limited is expected to be the Irish Paying Agent for the Notes (in such capacities, the "Irish Listing Agent" and the "Irish Paying Agent," respectively).
CISX Sponsor:	Maples Finance Jersey 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 Master Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement, the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap, the Supersenior Swap and the Purchase Agreement will be governed by, and construed in accordance with, the laws of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by, and construed in accordance with, the laws of the Cayman Islands.
Tax Matters:	See "Income Tax Considerations."
Benefit Plan Investors:	See "ERISA Considerations."

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RISK FACTORS

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

Limited Liquidity. There is currently no market for the Offered Securities. Although the Initial Purchaser may from time to time make a market in any Class of Notes or the Preference Shares, the Initial Purchaser is under no obligation to do so. The Placement Agent is under no obligation to make a market in any Offered Securities, and does not intend to do so. In the event that the Initial Purchaser or the Placement Agent 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, if there are Unsettled Credit Events, Net Unreimbursed Floating Amounts or any Deliverable Obligations credited to the DO Collateral Account on the Stated Maturity, the Extended Maturity Date.

Limited Recourse Obligations. The Notes are limited recourse obligations of the Co-Issuers. The Notes are payable solely from the Credit Default Swaps, Hedging Credit Default Swaps and other Collateral pledged by the Issuer to secure the Notes. None of the security holders, members, officers, directors, managers or incorporators of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Administrator, Standard & Poor's, the Share Trustee, the Initial Purchaser, the Placement Agent, any of their respective affiliates and any other person or entity will be obligated to make payments on the Notes. Consequently, the Noteholders must rely solely on amounts received in respect of the Credit Default Swaps, Hedging Credit Default Swaps and other Collateral pledged to secure the Notes for the payment of principal thereof and interest thereon. There can be no assurance that the distributions on the Credit Default Swaps, Hedging Credit Default Swaps 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. The Offered Securities are fully subordinated to the Issuer's obligations to pay all amounts due to the Swap Counterparty under the Master Agreement, the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Total Return Swap, and to the Issuer's obligation to pay the Senior Collateral Management Fee (and, in the case of the Preference Shares, the Subordinated Collateral Management Fee), the Structuring Fee, the Trustee Fee and the Administrative Expenses (subject, in the case of the Notes, to the limitations specified in the Priority of Payments). No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remains 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 until all principal of, and all accrued and unpaid interest on, the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full. See "Description of the Notes—Priority of Payments." If an Event of

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Default occurs, so long as any Notes are outstanding, the holders of the most Senior Class of Notes then outstanding (or, in many cases, the Swap Counterparty in its capacity as counterparty under the Supersenior Swap) 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 or the Class D 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 or the Class D Notes that is not paid when due by operation of the Priority of Payments will be deferred. In the event of any realization on the Collateral, proceeds will be allocated to the Notes and other amounts in accordance with the Priority of Payments prior to any distribution to the Preference Shareholders. See "Description of the Notes—The Indenture" and "—Priority of Payments." Remedies pursued by the Swap Counterparty (in its capacity as counterparty under the Supersenior Swap) or by holders of the Class or Classes of Notes entitled to determine the exercise of such remedies could be adverse to the interests of the holders of the other Classes of Notes. Generally, to the extent that any losses are suffered by any of the holders of any Offered Securities, such losses will be borne, *first*, by the holders of the Preference Shares, *second*, by the holders of the Class D Notes, *third*, by the holders of the Class C Notes, *fourth*, by the holders of the Class B Notes and, *fifth*, by the holders of the Class A Notes. The Swap Counterparty (in its capacity as counterparty pursuant to the Supersenior Swap) may agree with a Supersenior Institution that the Swap Counterparty (in its capacity as counterparty pursuant to the Supersenior Swap) will exercise all (or certain) of its rights and remedies under the Indenture and the Master Agreement at the direction of such Supersenior Institution.

Limited Remedies following an Event of Default. If an Event of Default occurs and the maturity of the Notes is accelerated, the Collateral will not be liquidated unless one of the two conditions precedent to its liquidation is satisfied, which in most circumstances will require the consent of the Swap Counterparty. See "Description of the Notes–The Indenture–Events of Default." When the Trustee determines what the proceeds of the liquidation of the Collateral would be following an Event of Default, the Swap Counterparty will have the right to determine the amount of any Swap Termination Payment that would be payable by (or to) the Issuer, and the Issuer will not have the right to obtain bids from other swap dealers or otherwise to challenge this determination by the Swap Counterparty. As a result, the Controlling Class may be able to exercise very limited remedies following an Event of Default. In the event that the Collateral is not liquidated following an Event of Default, the Trustee will continue to distribute the Interest Proceeds in accordance with the Priority of Payments and, after the Supersenior Notional Amount and the Supersenior Funded Amount has been reduced to zero, will distribute any Principal Proceeds in accordance with the Priority of Payments.

In the event that the Trustee determines that, following an Event of Default under the Indenture, upon liquidation of the Collateral, none of the proceeds would be applied to pay interest on, or principal of, the Notes, the Swap Counterparty (in its capacity as counterparty pursuant to the Supersenior Swap) may direct the Trustee to liquidate the Collateral, without obtaining the consent of any Noteholder or Preference Shareholder. In that event, the Preference Shareholders and Noteholders are likely to suffer a loss on their investment in the Offered Securities. Such a determination by the Trustee could result from the Swap Counterparty's determination that a large Swap Termination Payment will be due to the Swap Counterparty based on the Swap Counterparty's valuation of the loss which the Swap Counterparty will suffer if the Credit Default Swaps and Hedging Credit Default Swaps are terminated. It could also result from a determination by the Trustee that a forced sale of the Deliverable Obligations in the Collateral Account will result in the Issuer selling the Deliverable Obligations at unfavorable prices in illiquid markets and receiving only a small amount of sales proceeds as a result.

Payments in Respect of the Preference Shares. The Issuer, pursuant to the Indenture, has pledged substantially all of its assets to secure its obligations under the Master Agreement, the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap, the Total Return Swap, the Notes and

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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 its obligations under the Master Agreement, the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Total Return Swap, principal of and interest on the Notes and other fees and expenses of the Co-Issuers in accordance with the Priority of Payments, the Issuer will have funds remaining to make distributions in respect of the Preference Shares. See "Description of the Notes—Priority of Payments." Cayman Islands law provides that dividends may only be paid by the Issuer if the Issuer has funds lawfully available for such purpose. Dividends may be paid out of profit and out of the Issuer's share premium account (which includes subscription monies in excess of the par value of each share); *provided* that the Issuer will be solvent immediately following the date of such payment.

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

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 Credit Default Swaps and Hedging Credit Default Swaps (including the occurrence and severity of Credit Events and Floating Amount Events). 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. 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 Credit Default Swaps, which themselves are subject to credit, liquidity, interest rate and other risks. Utilization of leverage is a speculative investment technique and involves certain risks to investors. The indebtedness of the Issuer under the Notes will result in interest expense and other costs incurred in connection with such indebtedness that may not be covered by proceeds received from the Collateral. The use of leverage generally magnifies the Issuer's opportunities for gain and risk of loss.

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 Credit Default Swaps that will be entered into by the Issuer with the Swap Counterparty after the Closing Date, and, accordingly, the financial performance of the Issuer may be affected by the pricing of such Credit Default Swaps and availability of Credit Default Swaps in the market. The amount and nature of the Collateral securing the Notes have been established to withstand a certain assumed number and frequency of Credit Events and Floating Amount Events under the Credit Default Swaps. See "Ratings of the Offered Securities." If Credit Events and Floating Amount Events exceed such assumed levels, however, payment of the Notes and distributions on the Preference Shares could be adversely affected. To the extent that a Credit Event occurs with respect to any Credit Default Swap securing the Notes, it is likely that the Physical Settlement Amount due from the Issuer to the Swap Counterparty will exceed the Deliverable Obligation Sales Proceeds realized upon the sale of the Deliverable Obligations delivered by the Swap Counterparty to the Issuer, thereby decreasing amounts available to pay principal on the Notes or to repay an investment in the Preference Shares. As long as there are any Underlying Assets, if Credit Events or Floating Amount

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Events (other than Interest Shortfalls) occur, each Physical Settlement Amount and each Floating Amount paid by the Issuer in connection therewith will reduce the principal amount or Certificate Balance of the Underlying Assets and, as a result reduce the balance on which interest at LIBOR will accrue and be paid to the Issuer under the Total Return Swap. This will reduce the Interest Proceeds available to pay expenses of the Issuer, interest on the Notes and distributions on the Preference Shares on each Distribution Date. Principal Proceeds available to pay the principal amount of the Notes (and to return the investment in the Preference Shares) on any Redemption Date, at Stated Maturity, on the Extended Maturity Date or on the Accelerated Maturity Date also will be reduced by each Floating Amount (other than in respect of an Interest Shortfall) and each Physical Settlement Amount paid by the Issuer. The effect of Credit Events and Floating Amount Events under the Credit Default Swaps on the Issuer will be mitigated by any related Hedging Credit Default Swaps, but this mitigation will be subject to the credit risk associated with the Swap Counterparty.

Reliable sources of statistical information do not exist with respect to the rates at which shortfall events or credit events have occurred for many of the types of Reference Obligations subject to the Credit Default Swaps. In addition, historical economic performance of a particular type of Reference Obligation is not necessarily indicative of its future performance. Prospective purchasers of the Offered Securities should consider and determine for themselves the likelihood of Credit Events and Floating Amount Events, the potential volatility in market value of the Reference Obligations and the resulting consequences for their investment in the Offered Securities.

Limited Authority to Liquidate Credit Default Swaps and Hedging Credit Default Swaps. The Indenture and the Master Agreement do not give the Issuer the right to terminate any specific Credit Default Swap or Hedging Credit Default Swap. If the Credit Default Swaps and Hedging Credit Default Swaps are terminated by the Issuer in connection with an Optional Redemption, Tax Redemption, Auction Call Redemption, Mandatory Redemption or Accelerated Maturity Date, the Issuer may be required to pay a Swap Termination Payment to the Swap Counterparty (and, in the case of an Auction Call Redemption, to pay termination payment(s) to Eligible Dealer(s)), which may result in a loss for investors or prevent the Issuer from satisfying the conditions in the Indenture which must be satisfied before the Issuer can complete an Optional Redemption, Tax Redemption, Auction Call Redemption or liquidation of the Collateral following an Event of Default. Accordingly, the Issuer's ability to terminate existing Credit Default Swaps and Hedging Credit Default Swaps will be limited.

Reinvestment Period; Entering into Additional Credit Default Swaps and Hedging Credit Default Swaps. During the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, may cause the Issuer to enter into additional Credit Default Swaps and designate Reference Obligations to be added to the Reference Portfolio in an aggregate notional amount up to the aggregate Principal Payments on Credit Default Swaps in the Reference Portfolio. Accordingly, unless the Collateral Manager decides not to reinvest in additional Credit Default Swaps in respect of such Principal Payments, Principal Payments will not, during the Reinvestment Period, result in a reduction in the Supersenior Notional Amount or a payment of principal of the Notes. Although additional Credit Default Swaps must satisfy the Eligibility Criteria and the Trading Criteria, the composition of the Reference Portfolio could change as a result of such reinvestment by the Collateral Manager. It is possible that the Reference Obligations relating to additional Credit Default Swaps will not perform as well as the Reference Portfolio on the Closing Date.

In addition, during the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, will have the discretion to enter into Hedging Credit Default Swaps in respect of Credit Default Swaps referencing Reference Obligations that it determines to be either Credit Improved Reference Obligations or Credit Risk Reference Obligations. The Collateral Manager may cause the Issuer to invest in additional Credit Default Swaps in an amount up to the aggregate Reference Obligation Notional Amount of the Hedging Credit Default Swaps during the Reinvestment Period. After the Reinvestment Period, the

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Collateral Manager will continue to have the discretion to cause the Issuer to enter into Hedging Credit Default Swaps in respect of Credit Risk Reference Obligations. With respect to Credit Default Swaps as to which the Issuer has entered into Hedging Credit Default Swaps, the risks to the Issuer with respect to Floating Amount Events (other than Interest Shortfalls) and Credit Events will have been eliminated (subject to the risk of non-payment by the Swap Counterparty of its obligations under the Hedging Credit Default Swap). In the event that a Hedging Credit Default Swap is entered into in respect of a Credit Risk Reference Obligation, the Issuer will most likely be obligated to pay a Fixed Amount under the Hedging Credit Default Swap in excess of the Fixed Amount that the Issuer receives under the Credit Default Swap. This will result in a decline in Interest Proceeds available to pay interest on the Notes and distributions on the Preference Shares. The Issuer will not, however, be able to enter into any Hedging Credit Default Swaps if, after giving effect to execution thereof, the Issuer would not be able to satisfy the Hedging Credit Default Swap Tests (or, if any such test was not satisfied prior to such execution, such test would not be further from being satisfied). During the Reinvestment Period, the Collateral Manager may also cause the Issuer to enter into additional Credit Default Swaps in an aggregate Reference Obligation Notional Amount up to the amount of Deliverable Obligation Sales Proceeds (other than any portion thereof consisting of Interest Proceeds) realized upon the sale of Deliverable Obligations.

The Issuer will only be able to enter into a new Credit Default Swap or a Hedging Credit Default Swap with the Swap Counterparty. If the Collateral Manager does not agree with the Fixed Rate at which the Swap Counterparty is willing to enter into a new Credit Default Swap or Hedging Credit Default Swap, the Collateral Manager may obtain prices from an agreed upon list of dealers and if the dealers provide a better Fixed Rate the Issuer may enter into such Credit Default Swap or Hedging Credit Default Swap with the Swap Counterparty at such Fixed Rate, plus (in the case of a Hedging Credit Default Swap) or minus (in the case of a new Credit Default Swap) an intermediation fee payable to the Swap Counterparty. However, if the Collateral Manager cannot obtain an acceptable Fixed Rate from the Credit Swap Counterparty or from such a dealer, it will not be able to enter into a Credit Default Swap or a Hedging Credit Default Swap.

The Reinvestment Period may terminate earlier than September 2009 if any one of the events described in the definition of "Reinvestment Period" occurs. If the Reinvestment Period terminates, the Issuer will no longer be permitted to hedge Credit Improved Reference Obligations or to enter into any additional Credit Default Swaps.

Early Termination of the Total Return Swap. The Swap Counterparty will have the option, exercisable in its sole discretion, to terminate the Total Return Swap, in part, to the extent that any Underlying Asset becomes subject to an Underlying Asset Withholding Event. The Swap Counterparty also will (subject, in the case of a Voting Rights Event or a Credit Enhancement Event, to certain exceptions) have the option, exercisable in its sole discretion to terminate the Total Return Swap, in whole, if a Voting Rights Event or an Credit Enhancement Event occurs or if the sum of the Notional Amount of the Total Return Swap and the aggregate principal amount or Certificate Balance of the Deliverable Obligations in the DO Collateral Subaccount is less than U.S.$30,000,000. Any such full or partial termination of the Total Return Swap would not affect the Issuer's obligations to the Swap Counterparty under the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap or the Master Agreement. In the event of a partial or full termination of the Total Return Swap, the Issuer would be exposed to a risk of loss on the sale of an Underlying Asset on each subsequent date on which the Issuer liquidates any Underlying Asset in the Collateral Account in order to pay a Floating Amount or a Physical Settlement Amount due under a Credit Default Swap, or to pay the principal amount of the Notes or make a distribution on the Preference Shares. If the Issuer is not able to liquidate sufficient Underlying Assets by the date on which a Physical Settlement Amount or a Floating Amount is due under a Credit Default Swap, it could result in an event of default by the Issuer under the Master Agreement and a Mandatory Redemption of the Notes. If the Swap Counterparty terminates the Total Return Swap, in

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part or in whole, the Issuer may be required to invest in UA Eligible Investments, which may yield less than LIBOR. The Issuer may attempt to enter into a TRS Replacement Agreement, but there can be no assurance that the Issuer will be able to enter into a TRS Replacement Agreement or that any such TRS Replacement Agreement will yield LIBOR. As a result, the termination of the Total Return Swap (in whole or in part) is likely to result in a reduction of the Interest Proceeds that would otherwise be available to pay expenses of the Issuer and interest on the Notes and to make distributions on the Preference Shares.

Certain Conflicts of Interest Involving the Initial Purchaser. The Swap Counterparty is an affiliate of the Initial Purchaser, and will receive fees, credit protection and other benefits from the Issuer as a result of the Initial Purchaser's placement of the Offered Securities. As a result of the benefits which the Swap Counterparty will receive if the offering of the Securities is completed, the Initial Purchaser has a conflict of interest. There can be no assurance that the terms of the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap or the Supersenior Swap are the most favorable terms that the Issuer could obtain in the market if it entered into identical agreements with other potential counterparties that are not affiliates of the Initial Purchaser.

Certain of the Credit Default Swaps and the Hedging Credit Default Swaps may have Reference Entities or Reference Obligations that are sponsored or serviced by companies for which the Initial Purchaser or the Swap Counterparty or any of their respective affiliates has acted as underwriter, agent, placement agent or dealer or for which the Initial Purchaser, the Swap Counterparty or any of their respective affiliates has acted as lender or provided other commercial or investment banking services. Any of the Initial Purchaser, the Swap Counterparty or any of their respective affiliates may be an investor in, a lender to or other secured or unsecured creditor of any Reference Entity or a holder of a Reference Obligation and, in such capacity, may make decisions in such capacity in its own commercial interests, regardless of whether any such action might have an adverse effect on the Noteholders or Preference Shareholders, or on any Reference Obligation (including, without limitation, any action which might constitute or give rise to a Credit Event or a Floating Amount Event, or might diminish the value of a Reference Obligation). Any of the Initial Purchaser, the Swap Counterparty or any of their respective affiliates may engage in derivative transactions (including credit derivative transactions) with any Reference Entity and may provide investment banking and other financial services to any Reference Entity. Any of the Initial Purchaser, the Swap Counterparty or any of their respective affiliates may hold long or short financial positions with respect to the Reference Obligations or other securities or obligations of any Reference Entity or the Issuer. Any of the Initial Purchaser, the Swap Counterparty or any of their respective affiliates may act with respect to such financial positions and may exercise or enforce, or refrain from exercising or enforcing, any or all of their rights and powers in connection with such financial positions as if the Initial Purchaser, the Swap Counterparty or any of their respective affiliates had not entered into the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap, the Supersenior Swap or the Purchase Agreement, and without regard to whether any such action might have an adverse effect on the Issuer, any Noteholder, any Preference Shareholder, any Reference Entity or any obligation of the Issuer or any Reference Entity. In addition, the Initial Purchaser, the Swap Counterparty and any of their respective affiliates may have received or may in the future receive significant fees for such services.

Each of the Initial Purchaser and the Swap Counterparty will have only the duties and responsibilities expressly agreed to in the relevant capacity in which it is performing and will not, by virtue of it or any of its affiliates acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to be held to a standard of care other than as expressly provided with respect to each such capacity.

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Any of the Initial Purchaser, the Swap Counterparty or any of their respective affiliates may acquire Notes or Preference Shares for their own portfolio and/or buy or sell credit exposure to the Notes or Preference Shares in synthetic form from or to other parties. As a result, any of the Initial Purchaser, the Swap Counterparty or any of their respective affiliates may hold claims against the Issuer which conflict with the interests of the Noteholders or Preference Shareholders.

Conflicts of Interest Involving the Collateral Manager. The Collateral Manager and its Affiliates may enter into, for their own account or for accounts for which they have investment discretion, credit default swaps that would be appropriate investments for the Issuer. Such credit default swaps may be the same as or different from those made on behalf of the Issuer. The Collateral Manager and its Affiliates may also have equity and other investments in, may be lenders to, and may have other ongoing relationships with, the Reference Entities. In addition, Affiliates and clients of the Collateral Manager may invest in securities, sell credit protection under a credit default swap referencing securities or issue financial guaranty insurance policies covering securities (or make loans) that are senior to, or have interests different from or adverse to, the Reference Obligations. The Collateral Manager may at certain times be simultaneously seeking to enter into credit default swaps for the Issuer and for any similar entity for which the Collateral Manager serves as manager now or in the future, or its clients or Affiliates.

Various potential and actual conflicts of interest may arise from the overall investment activity of the Collateral Manager and its Affiliates. No provision in the Collateral Management Agreement prevents the Collateral Manager or any of its Affiliates from rendering services of any kind to the issuer of any obligation included in the Collateral and its affiliates, the Trustee, the securityholders or any other Person. Without prejudice to the generality of the foregoing, the Collateral Manager, its Affiliates and the directors, officers, employees and agents of the Collateral Manager and its Affiliates may, among other things: (a) serve as directors, partners, officers, employees, agents, nominees or signatories for any Reference Entity; (b) receive fees for services rendered to any Reference Entity; (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 Reference Entity; (e) underwrite, act as a distributor of or make a market in any Reference Obligation or Eligible Investment; and (f) serve as a member of any "creditors' board" with respect to any Reference Entity.

The Collateral Manager and its Affiliates currently provide and, in the future, will continue to provide advisory and other services to "collateralized debt obligation" issuers and other clients that include issuers of securities similar to or the same as the Reference Obligations and affiliates of such issuers. In the course of managing the credit default swaps entered into by the Issuer, the Collateral Manager may consider its relationships with other clients (including Reference Entities, the securities of which are pledged to secure the Notes) and its Affiliates. 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.

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 serving as collateral manager for, investing in, lending to, or being affiliated with, other entities organized to issue collateralized debt obligations secured by (or credit default swaps referencing) securities that are the same as or similar to the Reference Obligations and other trusts and pooled investments vehicles that acquire interests in, provide financing to, or otherwise deal with securities issued by, issuers that would be suitable reference entities for credit default swaps 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 that may have investment policies similar to

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those followed by the Collateral Manager with respect to the Issuer and that may own securities of the same class, or which are the same type, as the Reference Obligations.

Unless the Collateral Manager determines in its sole judgment that the transaction is appropriate, the Collateral Manager may refrain from directing transactions pursuant to the Collateral Management Agreement of securities issued by (i) Persons of which the Collateral Manager, its Affiliates or any of its or their officers, directors or employees are directors or officers, (ii) Persons for which the Collateral Manager or its Affiliates act as financial adviser or underwriter or (iii) Persons about which the Collateral Manager or any of its Affiliates have information that the Collateral Manager deems confidential or non-public or otherwise might prohibit it from trading such securities in accordance with applicable law.

The Collateral Manager or an Affiliate of the Collateral Manager will acquire approximately 13.89% of the Preference Shares on the Closing Date, which it will purchase at a discount. The Collateral Manager will pledge and assign the Senior Collateral Management Fee and the Preference Shares purchased by it as security for the financing of the acquisition of such Preference Shares in a transaction arranged by the Initial Purchaser (or an affiliate of the Initial Purchaser). The Initial Purchaser or affiliates thereof may provide such financing and, accordingly, may be the beneficiary of the pledge and assignment of the Senior Collateral Management Fee and the Preference Shares described in the preceding sentence. The Collateral Manager will agree to hold 3,000 Preference Shares until the Preference Share Holding Termination Date. Although the Collateral Manager currently expects to continue to hold all or part of the Preference Shares directly or indirectly through its Affiliates or funds or accounts for which the Collateral Manager or its Affiliates act as investment adviser until the redemption in full of the Notes, none of the Collateral Manager, its Affiliates and such funds and accounts, is, except as specified in the prior sentence, contractually restricted under the Indenture, the Collateral Management Agreement or otherwise from selling or otherwise disposing of all or part of the Preference Shares. In addition, the Collateral Manager, its Affiliates and client accounts for which the Collateral Manager or its Affiliates act as investment adviser may at times own Preference Shares and Notes of one or more Classes. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Offered Securities held by the Collateral Manager, its Affiliates and accounts for which the Collateral Manager or any Affiliate thereof acts as investment adviser (and for which the Collateral Manager or such Affiliate has discretionary authority) during the time that the Collateral Manager is serving as the Collateral Manager for the Issuer (such Securities, the "Collateral Manager Securities") with respect to any assignment or termination of, any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any rights to remove the Collateral Manager or terminate the Collateral Management Agreement), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote Offered Securities held by them and by such accounts with respect to all other matters, including approval of or objection to a replacement Collateral Manager.

The ownership of Preference Shares by one or more of the Collateral Manager and its Affiliates, may give the Collateral Manager an incentive to take actions that vary from the interests of the holders of the Notes. Notwithstanding anything to the contrary herein, the Collateral Manager or any Affiliate thereof, in its capacity as holder of, or an advisor to a holder of, the Preference Shares, may, in such capacity, act in the manner which it determines to be in the best interests of a holder of the Preference Shares, without regard to the effect on the interests of the Noteholders.

"Affiliate" with respect to the Collateral Manager means (i) any other Person who, directly or indirectly, is in control of, or controlled by, or is under common control with, the Collateral Manager or (ii) any other Person who is a director, member, officer, employee or general partner of (a) the Collateral Manager or (b) any such other Person described in clause (i) above. For the purposes of the foregoing

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definition, "control" of a Person shall mean the power, direct or indirect, (x) to vote more than 50% of the securities having ordinary voting power for the election of directors of such Person or (y) to direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

In certain circumstances, the Collateral Manager or the Trustee or their affiliates or both may receive compensation in connection with the Trustee's or the Collateral Manager's (or such affiliate's) investment in certain Eligible Investments from the managers of such Eligible Investments.

See "The Collateral Manager" and "The Collateral Management Agreement" for further information on the role of the Collateral Manager.

Removal of the Collateral Manager. The Collateral Manager may be removed at any time with "cause" and replaced with a replacement collateral manager under the circumstances described under "The Collateral Management Agreement—Termination of the Collateral Management Agreement." Such termination may become effective without the approval of holders of all of the Offered Securities.

Certain Conflicts of Interest Involving the Placement Agent. 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 Gulf Investment Corporation (the "Placement Agent") or an affiliate of the Placement Agent has acted as underwriter, agent, placement agent or dealer or for which an affiliate of the Placement Agent has acted as lender or provided other commercial or investment banking services. The Placement Agent or affiliates of the Placement Agent may structure issues of Collateral Debt Securities and arrange to place such Collateral Debt Securities with the Issuer. An affiliate of the Placement Agent (or an investment vehicle advised by the Placement Agent) will purchase Notes and Preference Shares on the Closing Date and, as a result, may initially and at any time thereafter be able to exercise the rights of such Notes or Preference Shares. On or after the Closing Date, the Placement Agent may purchase other Offered Securities. The Placement Agent or its affiliates may from time to time enter into derivative transactions with third parties with respect to the Offered Securities or with respect to Reference Obligations referencing a Credit Default Swap entered into by the Issuer, and the Placement Agent or its affiliates may, in connection therewith, acquire (or establish long, short or derivative financial positions with respect to) Offered Securities, Reference Obligations or one or more portfolios of financial assets similar to the portfolio of Reference Obligations entered into by the Issuer. These activities may create certain conflicts of interest, and there can be no assurance that the terms on which the Issuer entered into (or enters into) any of the foregoing transactions with the Placement Agent (or an affiliate thereof) were or are the most favorable terms available in the market at the time from other potential counterparties. The Placement Agent and each of its affiliates will take such actions, in each of the capacities listed above, as it deems to be in its commercial interests and will have no obligation to consider the effect of its actions on the Issuer, Noteholders or Preference Shareholders.

Relationship of Merrill Lynch with Reference Entities and Reference Obligations. The Reference Portfolio will include Reference Obligations to which ML&Co., Merrill Lynch International ("MLI") and their respective affiliates (collectively, "Merrill Lynch") have credit exposure and Reference Obligations to which they may not have credit exposure. In the event that MLI does not have any interest in a Reference Obligation, it may take a "short" position or it may sell protection at the same or different spreads in a credit default swap with a third party.

The Issuer has no legal or beneficial ownership of, or interest (whether by way of security interest or otherwise) in, any Reference Obligation, and Merrill Lynch will not be, and will not be deemed to be acting as, the agent or trustee of the Issuer in connection with the exercise of, or the failure to exercise, any of the rights or powers (if any) of Merrill Lynch arising under or in connection with its holding of any such obligation.

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Merrill Lynch may deal in any Reference Obligation and 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 transactions with, any Reference Entity and may act with respect to such transactions in the same manner as if the Credit Default Swaps, the Hedging Credit Default Swaps, the Notes and the Preference Shares did not exist and without regard to whether any such action might have an adverse effect on the Reference Entity, the Issuer, the Noteholders or the Preference Shareholders or result in a Credit Event or Floating Amount Event. Although Merrill Lynch may have entered into and may from time to time enter into business transactions with Reference Entities, Merrill Lynch at any time may or may not hold obligations of, or have any business relationship with, any particular Reference Entity. Merrill Lynch may vote its interest (if any) in the obligations of any Reference Entity, purchase or sell such obligations, provide bid and offer prices with respect thereto, affect the market value thereof, and otherwise participate in the secondary market for such obligations as if the Notes and Preference Shares did not exist, regardless of whether any such action might have an adverse effect on any Reference Obligation, the Noteholders or the Preference Shareholders or result in a Credit Event or Floating Amount Event.

Merrill Lynch may, whether by virtue 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 Obligation or any Reference Entity that is or may be material in the context of the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap, the Supersenior Swap, the Notes and the Preference Shares and that may or may not be publicly available or known. None of the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap, the Supersenior Swap, the Notes and the Preference Shares creates any obligation on the part of Merrill Lynch to disclose to any other such party any such relationship or information (whether or not confidential).

Actual Losses Not Required. The Swap Counterparty will not be required to own or hold any Reference Obligations. As a result, upon the occurrence of a Floating Amount Event or a Credit Event, the Issuer will be required to pay Floating Amounts or Physical Settlement Amounts even though the Swap Counterparty may not have incurred any actual losses.

Swap Counterparty Acts in Its Own Interest. In taking any action with respect to the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap, the Swap Counterparty will be acting solely in its own commercial interests and not as agent, fiduciary or in any other capacity on behalf of the Co-Issuers, the Initial Purchaser, the Placement Agent, the Collateral Manager or the holders of the Offered Securities. The Swap Counterparty will have no duty whatsoever to consider the effect of its actions or failure to take action on the holders of the Notes or the Preference Shares. The Swap Counterparty, in its capacities as counterparty to the Supersenior Swap, the Credit Default Swaps and the Hedging Credit Default Swaps, will have certain voting and other rights under the Indenture and the Collateral Management Agreement. The interests of the Swap Counterparty may not be aligned with those of the holders of the Notes and the Preference Shares. The Swap Counterparty (in its capacity as counterparty pursuant to the Supersenior Swap) may agree with the Supersenior Institution that the Swap Counterparty (in its capacity as counterparty pursuant to the Supersenior Swap) will exercise all (or certain) of its rights and remedies under the Indenture and the Master Agreement at the direction of the Supersenior Institution.

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.

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Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, the timing of entering into Credit Default Swaps and Hedging Credit Default Swaps, mismatches between the timing of accrual of interest on the Notes and receipt of Swap Counterparty Premium Payments under Credit Default Swaps and Hedging Credit Default Swaps, Credit Events, Floating Amount Events and Additional Fixed Payment Events under Credit Default Swaps, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Initial Purchaser, the Placement Agent or any of their respective affiliates or any other person or entity of the results that will actually be achieved by the Issuer.

None of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Initial Purchaser, the Placement Agent, 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.

Mandatory Repayment of the Notes. In the event that the Master Agreement (and the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap entered into thereunder) is terminated by the Issuer or the Swap Counterparty as the result of an "event of default" by the other party or "termination event" under the Master Agreement, the Collateral (other than any Holdback Amount) will be liquidated and a Mandatory Redemption will occur on the next succeeding Distribution Date. In the event that Credit Events or Floating Amount Events with respect to unhedged Credit Default Swaps have occurred or the Issuer is required to make a Swap Termination Payment to the Swap Counterparty or is required to establish a Holdback Amount, the holders of the each Class of Notes and the Preference Shares will suffer a loss upon a Mandatory Redemption in inverse order of seniority.

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 unless such Optional Redemption has occurred as a result of a Downgrade Event, no such optional redemption may occur prior to the Distribution Date occurring in September 2009. If there is a Consolidation Redemption Event, the Swap Counterparty may direct the Issuer at any time to redeem the Notes at the applicable Redemption Price. If an Optional Redemption has occurred as a result of a Downgrade Event, the aggregate of the Structuring Fees payable to the Swap Counterparty on each Distribution Date through the Distribution Date in September 2009 will, to the extent not already paid on prior Distribution Dates, be payable on the related Redemption Date. Unless there are sufficient Available Redemption Funds to pay the resulting increase in the Total Senior Redemption Amount, the Issuer will not be able to effect an Optional Redemption, notwithstanding the occurrence of a Downgrade Event. In the event that the Issuer is required to pay a Swap Termination Payment to the Swap Counterparty or Credit Events or Floating Amount Events have occurred, the Issuer may not be able to satisfy the conditions in the Indenture in order to complete an Optional Redemption. The Swap Counterparty will have the right to determine the amount of any Swap Termination Payment that would be payable in connection with a redemption of the Notes by (or to) the Issuer, and the Issuer will not have the right to obtain bids from other swap dealers or otherwise to challenge this determination by the Swap Counterparty. Unless a Majority-in-Interest of Preference Shareholders have directed that an optional redemption of the Preference Shares also should occur on the Redemption Date, the Trustee will, to the extent practicable, not liquidate the portion of the Collateral identified by the Collateral Manager which is not required in order to obtain proceeds equal to the Total Senior Redemption Amount. The Swap Counterparty has not determined whether a Consolidation Redemption Event will exist as of the Closing Date and, therefore, there can be no assurance that the Swap Counterparty will not have the right to direct an Optional Redemption. See "Description of the Notes—Optional Redemption and Tax Redemption."

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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 September 2013, then a valuation of the Credit Default Swaps and the Hedging Credit Default Swaps will be conducted pursuant to the applicable Liquidation Procedures and, if certain conditions are satisfied, the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap will be terminated (or assigned) 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 termination of the Credit Default Swaps and the Hedging Credit Default Swaps, together with other Available Redemption Funds, are sufficient to pay the Total Senior Redemption Amount. If such conditions are not satisfied then such a valuation will be conducted on a quarterly basis until such conditions are satisfied and the Notes are redeemed in full. Valuation of the Credit Default Swaps and Hedging Credit Default Swaps may be difficult, because pay-as-you-go credit default swaps on asset backed securities are relatively new instruments for which there is not a liquid market and there has been very little experience in valuing these instruments. See "Description of the Notes—Redemption Price" and "—Auction Call Redemption."

Tax Redemption. Subject to satisfaction of certain conditions, upon the occurrence of a Tax Event (subject to the satisfaction of the Tax Materiality Condition) or upon the occurrence of a Swap Counterparty Tax Event, the Issuer shall redeem the Notes (such redemption, a "Tax Redemption") on any Distribution Date, in whole but not in part, at the applicable Redemption Price therefor (A) in the case of a Tax Event, (i) at the direction of the holders of a majority in Aggregate Outstanding Amount of any Class of Notes that, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest due and payable to such Class on any Distribution Date (each such Class, an "Affected Class") or (ii) at the direction of a Special-Majority-in-Interest of Preference Shareholders and (B) in the case of a Swap Counterparty Tax Event, at the direction of the Swap Counterparty. In the event that the Issuer is required to pay a Swap Termination Payment to the Swap Counterparty or Credit Events or Floating Amount Events have occurred, the Issuer may not be able to satisfy the conditions in the Indenture in order to complete a Tax Redemption. Unless a Majority-in-Interest of Preference Shareholders have directed that an optional redemption of the Preference Shares also should occur on the Redemption Date, the Trustee will, to the extent practicable, not liquidate the portion of the Collateral identified by the Collateral Manager which is not required in order to obtain proceeds equal to the Total Senior Redemption Amount. The Swap Counterparty will have the right to determine the amount of any Swap Termination Payment that would be payable in connection with a redemption of the Notes by (or to) the Issuer, and the Issuer will not have the right to obtain bids from other swap dealers or otherwise to challenge this determination by the Swap Counterparty. The Swap Counterparty has not determined whether a Swap Counterparty Tax Event will exist as of the Closing Date and, therefore, there can be no assurance that the Swap Counterparty will not have the right to direct a Tax Redemption. See "Description of the Notes — Optional Redemption and Tax Redemption."

Substitution Risk. During the Reinvestment Period, if the Reference Pool Notional Amount has declined as a result of Principal Payments on the Reference Obligations or if any of the Credit Default Swaps have become Hedged Credit Default Swaps, the Collateral Manager will have the ability to cause the Issuer to enter into Credit Default Swaps in an aggregate notional amount up to such reduction in the Reference Pool Notional Amount and the aggregate Reference Obligation Notional Amount of the Hedged Credit Default Swaps on the Effective Dates of the related Hedging Credit Default Swaps, and to select the Reference Obligations with respect to those Credit Default Swaps. In addition, the Collateral Manager will have the ability to cause the Issuer to enter into additional Credit Default Swaps during the Reinvestment Period having an aggregate Reference Obligation Notional Amount up to the aggregate amount of Deliverable Obligation Sales Proceeds (other than any portion thereof consisting of Interest Proceeds) realized upon the sale of Deliverable Obligations. The addition of these Reference Obligations to the Reference Portfolio may have an adverse effect on the Reference Portfolio and on the ability of the Issuer to make payments on the Notes and Preference Shares. This effect would be magnified with

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respect to the Preference Shares due to their leveraged nature, and, with respect to the respective Classes of Notes, the degree of leverage with respect to such Class.

The ability of the Issuer to enter into Credit Default Swaps to the extent of the Available Reinvestment Amount will depend, upon other factors, on the availability of Reference Obligations that satisfy the Trading Criteria and the willingness of the Swap Counterparty to enter into additional Credit Default Swaps with the Issuer at Fixed Rates that provide an acceptable return to the Issuer. In the event that the Collateral Manager is unable to identify Reference Obligations that satisfy the Trading Criteria or the Swap Counterparty is unwilling to enter into one or more additional Credit Default Swaps at acceptable Fixed Rates in respect of the Available Reinvestment Amount, the Issuer will not receive any premiums from the Swap Counterparty in respect of the corresponding notional amount thereof, which may adversely affect the Issuer's ability to pay interest on the Notes and distributions to the Preference Shares. In the event that the Collateral Manager is unable to find Reference Obligations satisfying the Trading Criteria by the end of the Reinvestment Period or decides not to enter into substitute Credit Default Swaps, once the Supersenior Notional Amount and the Supersenior Funded Amount have been reduced to zero, the Principal Amortization Release Amount will be applied in accordance with the Priority of Payments.

In addition, the Collateral Manager will have discretion during the Reinvestment Period to cause the Issuer to enter into Hedging Credit Default Swaps with respect to Credit Default Swaps referencing Credit Improved Reference Obligations or Credit Risk Reference Obligations, and will have the discretion to cause the Issuer to enter into Hedging Credit Default Swaps in respect of Credit Risk Reference Obligations after the Reinvestment Period has ended. Entering into a Hedging Credit Default Swap will eliminate the risk (if the Swap Counterparty performs its obligation under the Hedging Credit Default Swap) that the Issuer will have to pay a Floating Amount or a Physical Settlement Amount on the occurrence of a Floating Amount Event or Credit Event, as applicable, under such Credit Default Swap. However, it will reduce Interest Proceeds available to pay interest on the Notes and distributions on the Preference Shares. There can be no guarantee as to the relative benefits or losses resulting from entering into Hedging Credit Default Swaps. A Reference Obligation will be characterized as a Credit Improved Reference Obligation or a Credit Risk Reference Obligation based on the Collateral Manager's judgment regarding a decline in or improvement of the credit quality of any Reference Obligation.

Effect of Hedging Credit Risk Reference Obligations. If a Reference Obligation becomes a Credit Risk Reference Obligation, the Collateral Manager may enter into a Hedging Credit Default Swap, pursuant to which it is the credit protection buyer and the Swap Counterparty is the credit protection seller. However, the Fixed Amount payable by the Issuer pursuant to the Hedging Credit Default Swap will be higher than the Fixed Amount payable by the Swap Counterparty on the Credit Default Swap referencing the Credit Risk Reference Obligation. As a result, the Issuer will realize a net loss in the aggregate Fixed Amounts received by it pursuant to the Credit Default Swaps as to which it has entered into Hedging Credit Default Swaps and upon the termination of the Credit Default Swap and the related Hedging Credit Default Swap. This may adversely affect the Issuer's ability to pay interest on the Notes and will adversely affect distributions in respect of the Preference Shares.

Physical Settlement. In the event that the Swap Counterparty elects to settle physically a Credit Default Swap following the occurrence of a Credit Event (and the Conditions to Settlement have been satisfied), the Issuer will be obligated to pay the Physical Settlement Amount with respect to the related Reference Obligation, which will be based on the principal amount or Certificate Balance of the Reference Obligation. As a result, the Issuer will realize a loss equal to the excess of the Physical Settlement Amount over the Deliverable Obligation Sales Proceeds (other than accrued interest) on the Deliverable Obligation Sale Date. Underlying Assets in an amount equal to the Physical Settlement Amount will need to be liquidated to pay the Physical Settlement Amount, and the amount received by

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the Issuer pursuant to the Total Return Swap will be reduced accordingly. If all of the Underlying Assets have been liquidated, the Issuer will need to obtain funding under the Supersenior Swap, which will require the Issuer to pay interest on the Supersenior Funded Amount and to repay the Supersenior Funded Amount, which obligations will be senior to the Issuer's obligations under the Notes and the Preference Shares. There is no guarantee that a Deliverable Obligation will generate any Deliverable Obligation Payments or that a Deliverable Obligation can be sold and, if sold, as to the amount of the Deliverable Obligation Sale Proceeds.

The Collateral Manager is required to use commercially reasonable efforts to sell any Deliverable Obligation on behalf of the Issuer by the earlier of two years after its Delivery Date and the Business Day prior to the Extended Maturity Date. On each Delivery Date prior to the Initial Redemption Date, if, after giving effect to the delivery of any Deliverable Obligation, the aggregate par amount of the Deliverable Obligations held by the Issuer exceeds 15% of the Reference Pool Notional Amount on such Delivery Date, the Collateral Manager is required to use commercially reasonable efforts to sell Deliverable Obligations within 60 days following the Delivery Date of such Deliverable Obligation, such that the aggregate par amount of all Deliverable Obligations held by the Issuer is 15% or less of the Reference Pool Notional Amount. There is, however, no guarantee that the Collateral Manager will succeed in selling any Deliverable Obligation, and the time required to sell a Deliverable Obligation cannot be predicted. If a Deliverable Obligation is sold, there is no guarantee that the Deliverable Obligation Sales Proceeds will result in proceeds to the Issuer in respect of the related Credit Event equivalent to the Physical Settlement Amount. After the Physical Settlement Trigger Date, the Swap Counterparty will not deliver to the Issuer any Deliverable Obligations in exchange for payment of the Physical Settlement Amount (which will be paid by the Swap Counterparty under the Supersenior Swap), and the Issuer will not receive any of the proceeds of the sale of, or income on, such Deliverable Obligations.

Market Value of Reference Obligations and Deliverable Obligations. The market value of any or all of the Reference Obligations on the Effective Date of a Credit Default Swap may be less than the certificate balance, principal or par amount thereof or the Reference Obligation Notional Amount thereof. However, the Physical Settlement Amount will be based on such certificate balance, principal or par amount.

The Physical Settlement Amount payable by the Issuer upon Physical Settlement following a Credit Event under a Credit Default Swap will be based on the principal amount or Certificate Balance of the related Reference Obligation. The market value of the Deliverable Obligation delivered by the Swap Counterparty in connection with a Physical Settlement will likely be less than the Physical Settlement Amount, and there is no guarantee that the Issuer will be able to sell a Deliverable Obligation at a price which the Collateral Manager believes accurately reflects its recovery value. A decline in the market value of a Reference Obligation may result in a decline in the market value of the related Credit Default Swap. As a result, if the Issuer attempts to liquidate its Reference Portfolio, sale proceeds will be less than otherwise anticipated. This may adversely affect payments on the Notes and distributions in respect of the Preference Shares.

The market value of a Deliverable Obligation will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, international political events, developments or trends in any particular industry, the performance of the assets backing the Deliverable Obligation, the financial condition of the portfolio of the related Reference Entity, and the terms of the Deliverable Obligation. A Deliverable Obligation may be in default at the time it is delivered to the Issuer, and the related Reference Entity may be insolvent. These factors may adversely impact the price and liquidity of the Deliverable Obligations.

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All Deliverable Obligations in the DO Collateral Subaccount will be liquidated on the Stated Maturity of the Notes or the Extended Maturity Date. Such forced liquidation may reduce the proceeds received by the Issuer for the Deliverable Obligations.

Liquidation of Collateral Upon Redemption. An Optional Redemption, a Tax Redemption, an Auction Call Redemption, a Mandatory Redemption or the occurrence of an Accelerated Maturity Date may require the Issuer to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the liquidated Credit Default Swaps and Hedging Credit Default Swaps, or the realized value of the liquidated Underlying Assets and the realized value of any Deliverable Obligations.

The aggregate principal amount of the Underlying Assets on the Closing Date will be U.S.$1,125,000 less than the sum of the aggregate principal amount of the Notes and the aggregate liquidation preference of the Preference Shares since the Issuer has to pay closing date expenses. As a result, if the Underlying Assets were liquidated at par after the Closing Date, the Preference Shareholders would incur a loss on their original investments.

Limited Obligation of the Swap Counterparty to Reimburse the Issuer for Additional Fixed Amounts. The Swap Counterparty's obligation to pay Additional Fixed Amounts under each Credit Default Swap will end no later than 720 days after the Effective Maturity Date of such Credit Default Swap. As a result, the holders of the Offered Securities will not benefit from any subsequent reversal or payment by the related Reference Entity of Floating Amount Events Furthermore, the obligation of the Swap Counterparty to pay any Additional Fixed Amounts will terminate upon an Optional Redemption, Tax Redemption, Auction Call Redemption, Accelerated Maturity Date or termination of the Master Agreement (other than a termination for which the Swap Counterparty is the sole "defaulting party" or sole "affected party" under the Master Agreement (other than in the case of an "illegality" or "tax event")). No Additional Fixed Amounts will be payable to the Issuer after the Extended Maturity Date.

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 Swap Counterparty, the ability of the Issuer to enter into Credit Default Swaps and Hedging Credit Default Swaps during the Reinvestment Period and the characteristics of the Credit Default Swaps and Hedging Credit Default Swaps, including the existence and frequency of Credit Events and Floating Amount Events, and the actual level of recoveries on any Deliverable Obligation obtained in a physical settlement. See "Maturity, Prepayment and Yield Considerations" and "Security for the Notes."

Distributions on the Preference Shares; Investment Term. 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. If any petition is filed under applicable bankruptcy laws, then the filing of such a petition could result in one or more payments on the Notes made during the period prior to such filing being deemed to be preferential transfers subject to avoidance by the bankruptcy trustee or similar official exercising authority with respect to the Issuer's bankruptcy estate.

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Listing. Application has been made for the Notes to be admitted to the official list of the Irish Stock Exchange and trading on its regulated market, subject to the Irish Stock Exchange listing rules and the prospectus rules of the Irish Financial Services Regulatory Authority. Application has also been made to the Channel Islands Stock Exchange LBG for the listing of and permission to deal in the Preference Shares. There can be no assurance that any such listing will be obtained or that, if it is obtained, that it will be maintained by the Issuer. If any Class or Classes of Notes are admitted to the Daily Official List of the Irish Stock Exchange, the Issuer may at any time terminate the listing of such Notes if the Issuer determines that, as a result of a change in the requirements of the Irish Stock Exchange, the maintenance of such listing would impose any material obligation or expense on the Issuer (in excess of the amount anticipated on the Closing Date). If the Issuer terminates the listing of the Notes, it will make reasonable endeavors to seek a replacement listing on another 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. 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). If the Issuer terminates the listing, it will make reasonable endeavors to seek a replacement listing on another stock exchange, unless obtaining or maintaining a listing on such stock exchange requires the Issuer to restate its accounts or is otherwise unduly burdensome, in which event the Issuer will make reasonable endeavors to obtain a replacement listing elsewhere.

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

The Issuer expects that payments received on the Eligible Investments, the UA Eligible Investments and the Underlying Assets 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 Eligible Investments, UA Eligible Investments and the Underlying Assets, however, might become subject to U.S. or other withholding tax due to a change in law or other causes. The imposition of unanticipated withholding taxes or of tax on the Issuer's net income could materially impair the Issuer's ability to pay principal of and interest on the Notes and make distributions on the Preference Shares. The imposition of withholding or other taxes on payments under the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap or the Supersenior Swap could result in a Tax Event or a Swap Counterparty Tax Event. See "Income Tax Considerations."

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

Tax Treatment of Holders of Preference Shares. Because of the nature and composition of the projected assets and income of the Issuer, the Issuer is expected to be a passive foreign investment company (a "PFIC") for U.S. Federal income tax purposes. A U.S. shareholder must generally choose either (1) to elect to treat the Issuer as a qualified electing fund ("QEF") as a result of which such

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shareholder must include its *pro rata* share of the Issuer's ordinary income and net capital gains on a current basis without regard to cash distributions or (2) to pay income taxes only when cash distributions are actually received or gains realized upon disposition of equity, but subject to potentially significant additional taxes.

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

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

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

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

Tax Considerations Relating to the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Total Return Swap. Under current U.S. Federal income tax law, the treatment of credit default swaps in general, or the treatment of credit default swaps with "pay as you go" features in particular, is unclear. Certain possible tax characterizations of a credit default swap, such as a guarantee contract or an insurance contract, if adopted by the U.S. Internal Revenue Service and if applied to the Credit Default Swaps could subject payments received by Issuer under the Credit Default Swaps to U.S. withholding or excise tax or subject the Issuer to excise tax. The Issuer may not be entitled to a full gross-up on such tax under the terms of the Credit Default Swaps and any such tax, if imposed, would reduce the Issuer's assets available to pay interest and/or principal on the Notes and make distributions on the Preference Shares. Similarly, if the same tax characterizations discussed above were applied to the Hedging Credit Default Swaps and the Supersenior Swap (or components thereof), payments made by the Issuer could be subject to U.S. withholding or excise tax.

It is possible that the U.S. Internal Revenue Service may treat the Total Return Swap as debt of MLI for U.S. Federal income tax purposes. Assuming such treatment and provided that Merrill Lynch does not own any equity (for U.S. Federal income tax purposes) in the Issuer, it is generally expected that payments received by the Issuer on the Total Return Swap will not be subject to withholding taxes imposed by the United States.

The Swap Counterparty and the Issuer have agreed to treat (a) the Credit Default Swaps as a series of annually settled contingent put options issued to the Swap Counterparty by the Issuer, (b) the

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Hedging Credit Default Swaps as a series of annually settled contingent put options issued to the Issuer by the Swap Counterparty, (c) the Supersenior Swap as consisting of a series of annually settled contingent put options issued by the Swap Counterparty to the Issuer and (d) the total return swaps as notional principal contracts. However, because of the Issuer's and the Swap Counterparty's rights under the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Total Return Swap, it is possible that the IRS could recharacterize the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Total Return Swap as other than the parties' agreed treatment of the same, including treating the Issuer as purchasing a credit linked note issued by the Swap Counterparty. Any such recharacterization, if successful, could alter the timing or character of the Issuer's income and deductions that could affect U.S. holders of the Preference Shares. Prospective U.S. holders of Preference Shares should consult with their tax advisors as to the consequences of such possible recharacterization.

The imposition of withholding or other taxes on payments under the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap or the Supersenior Swap could result in a Tax Event or a Swap Counterparty Tax Event.

The Issuer. The Issuer is a recently formed Cayman Islands entity and has no prior operating history. The Issuer will have no significant assets other than the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap, Eligible Investments and the Accounts and its rights under the Total Return Swap 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"), the Swap Counterparty, the Preference Share Registrar, the Collateral Administrator and the Collateral Manager. Income derived from the Credit Default Swaps and the 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.

Leveraged Credit Exposure to Reference Obligations; Volatility of Deliverable Obligations; Limited Provision of Information about Reference Obligations. As described under "Security for the Notes—Credit Default Swaps," the obligation of the Issuer to make payments to the Swap Counterparty under the Credit Default Swaps creates significantly leveraged exposure to the credit risk of a number of Reference Obligations. If a Floating Amount Event or a Credit Event with respect to a Reference Obligation occurs on or after the Closing Date, the Issuer will be obligated under the related Credit Default Swap to pay a Floating Amount or a Physical Settlement Amount to the Swap Counterparty. Each Floating Amount and Physical Settlement Amount paid under a Credit Default Swap will reduce the Swap Counterparty Premium Payments payable by the Swap Counterparty to the Issuer under the Credit Default Swaps and will reduce the amount of Underlying Assets and UA Eligible Investments and, thus, reduce the payments by the Swap Counterparty under the Total Return Swap and the funds available to pay principal and interest due and payable on the Notes. Although the Deliverable Obligation must be the same as the Reference Obligation referenced by the applicable Credit Default Swap, the Reference Obligation may at the time be a defaulted or credit impaired security. As a result, the Physical Settlement Amount may exceed the market value of the Deliverable Obligation, the Deliverable Obligation Sales Proceeds may be less than the Physical Settlement Amount, and it may be difficult to sell the Deliverable Obligation within a short period of time. This will impair the Issuer's ability to pay interest on the Notes and ultimately to pay in full or redeem the Notes, as well as make distributions on the Preference Shares.

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The Credit Default Swaps present risks in addition to those resulting from direct purchases of Deliverable Obligations. The Issuer will have a contractual relationship only with the Swap Counterparty, except upon delivery of a Deliverable Obligation following the occurrence of a Credit Event. In addition, in the event of the insolvency of the Swap Counterparty, the Issuer will be treated as a general creditor of the Swap Counterparty and will not have any claim with respect to the Reference Obligations.

No information on the credit quality of the Reference Obligations is provided herein. The Noteholders will not have the right to obtain from the Swap Counterparty, the Issuer, the Collateral Manager, the Initial Purchaser, the Placement Agent or the Trustee information on the Reference Obligations or information regarding any obligation of any Reference Entity (other than the limited information set forth in the monthly reports delivered pursuant to the Indenture). The Swap Counterparty will have no obligation to keep the Issuer, the Trustee or the Noteholders 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, the Noteholders or the Preference Shareholders will have the right to inspect any records of the Swap Counterparty relating to the Reference Obligations.

A prospective investor should review the prospectus, prospectus supplement or other offering materials (and any servicer or trustee reports) for each Reference Obligation prior to making a decision to invest in the Notes or the Preference Shares.

Changes to Credit Default Swaps. The description in this Offering Circular of the Credit Default Swaps (including the Credit Events and Floating Amount Events and the consequences thereof) is based on the form of confirmation attached as Exhibit B. However, the Issuer and the Swap Counterparty may adopt different forms of confirmation for the Credit Default Swaps and the Hedging Credit Default Swaps made after the Closing Date, without obtaining consent from the holders of any of the Offered Securities. In that event, the terms of the Credit Default Swaps and the Hedging Credit Default Swaps may be materially different from the terms described in this Offering Circular.

Declaration of Credit Events and Floating Amount Events. Whether and when to declare a Credit Event and to deliver any notice that a Credit Event or a Floating Amount Event has occurred will be in the sole discretion of the Swap Counterparty, and none of the Swap Counterparty, the CDS Calculation Agent or any of their affiliates will have any liability to any Noteholder, any Preference Shareholder or any other person as a result of giving (or not giving) any such notice. If a Writedown or Failure to Pay Principal occurs, the Swap Counterparty may elect to require the Issuer to pay the Floating Amount or to treat it as a Credit Event and physically settle under the Credit Default Swap.

Effect of Credit Events and Floating Amount Events on Performance of the Notes and Preference Shares. Payments on the Notes and Preference Shares will be adversely affected by Credit Events and Floating Amount Events. There is no guarantee as to the ability to sell and timing of sale of Deliverable Obligations, or whether the amount of Deliverable Obligation Sale Proceeds on the sale of such Deliverable Obligations will equal the Physical Settlement Amounts paid by the Issuer following the occurrence of the related Credit Events. If a Floating Amount Event occurs, there is no guarantee that an Additional Fixed Payment Event will occur or that the Additional Fixed Amount will fully compensate the Issuer, particularly because in the case of a Writedown Reimbursement or a Principal Shortfall Reimbursement the Swap Counterparty will not pay interest on such amount to the Issuer. If Credit Events or Floating Amount Events (other than Interest Shortfalls) occur, each Physical Settlement Amount and each Floating Amount paid by the Issuer in connection therewith will reduce the principal amount or Certificate Balance of the Underlying Assets and, as a result, reduce the balance on which interest at LIBOR will accrue and be paid to the Issuer under the Total Return Swap. This will reduce the

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Interest Proceeds available to pay expenses of the Issuer, interest on the Notes and distributions on the Preference Shares on each Distribution Date. Principal Proceeds available to pay the principal amount of the Notes (and to return the investment in the Preference Shares) on any Redemption Date, at Stated Maturity, on the Extended Maturity Date or on the Accelerated Maturity Date also will be reduced by each Floating Amount (other than in respect of an Interest Shortfall) and each Physical Settlement Amount paid by the Issuer.

Prospective purchasers of the Notes or Preference Shares should consider and determine for themselves the likely levels of Credit Events and Floating Amount Events during the term of the Notes and the Preference Shares and the impact of such Credit Events and Floating Amount Events on their investment.

The concentration of the Reference Portfolio in any one industry or geographic region, in any one originator or servicer or in any one Specified Type of Asset-Backed Security will subject the Offered Securities to a greater degree of risk of loss resulting from defaults within such industry or geographic region, defaults by such originator or servicer or defaults among that Specified Type of Asset-Backed Security. See "Security for the Notes—The Credit Default Swaps."

Principal Proceeds available to pay the principal amount of the Notes (and to return the investment in the Preference Shares) on any Redemption Date, at Stated Maturity, the Extended Maturity Date or the Accelerated Maturity Date will be reduced by each Physical Settlement Amount, Writedown Amount or Principal Shortfall Amount paid by the Issuer.

Effect of Interest Shortfalls on Performance of the Notes and Preference Shares. An Interest Shortfall will occur whenever a Reference Entity fails to pay scheduled interest on a Reference Obligation Payment Date. This could result from a default by the Reference Entity or from other events or circumstances which are not events of default under the applicable Underlying Instrument, such as an available funds cap, a "priority of payments" provision or a "payment in kind" provision in the Underlying Instruments, or the insufficiency of the funds available to the Reference Entity to pay interest. In addition, although the Reference Obligation Coupon with respect to a Reference Obligation may be "stepped-up" due to the failure of the holders of such Reference Obligation to redeem, cancel or terminate the Reference Obligation, as the case may be, in accordance with the Underlying Instruments, the Fixed Amount payable with respect to the relevant Credit Default Swap will not be increased. The step-up in the Reference Obligation Coupon will increase the Expected Interest Amount, resulting in a greater likelihood that an Interest Shortfall will occur. Whenever an Interest Shortfall occurs on a Reference Obligation Payment Date, the related Interest Shortfall Payment Amount will reduce dollar-for-dollar the Fixed Amount payable by the Swap Counterparty to the Issuer. This will reduce the Interest Proceeds available to the Issuer in that Due Period to pay its expenses, interest on the Notes and distributions on the Preference Shares. If a sufficient amount of Interest Shortfalls occur in the same Due Period, Interest Proceeds could be reduced to an amount that would not be sufficient to pay the interest due on the Class A Notes or the Class B Notes, resulting in an Event of Default.

Prospective purchasers of the Notes or Preference Shares should consider and determine for themselves the likely amount of Interest Shortfalls during the term of the Notes and the Preference Shares and the impact of such Interest Shortfalls on their investment.

Reduced Interest Rate After Initial Redemption Date. If any Notes are not paid in full on the Initial Redemption Date (due to the existence of Unsettled Credit Events, Net Unreimbursed Floating Amounts or of Deliverable Obligations credited to the DO Collateral Subaccount), the outstanding Notes will bear interest at a rate equal to LIBOR until the Extended Maturity Date or such earlier date as they are paid in full, and the failure to pay interest on the Notes on any Distribution Date after the Initial

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Redemption Date will not be an Event of Default. If there are no Underlying Assets in the UA Collateral Subaccount, and there are only Deliverable Obligations credited to the DO Collateral Subaccount, the Issuer will not have any Interest Proceeds (other than Deliverable Obligation Sale Proceeds and Deliverable Obligation Payments which constitute Interest Proceeds, and any Interest Shortfall Reimbursement Payment Amounts) to pay interest on the Notes.

Possible Insufficiency of the Payments on the Collateral to Make Payments When Due on the Notes. There can be no assurance that the Swap Counterparty Premium Payments, the Total Return Swap LIBOR Payment and the distributions from the Eligible Investments will be sufficient to make payments of interest when due on the Notes, after paying certain expenses senior to the Notes and amounts due under the Supersenior Swap. If distributions under the Credit Default Swaps (after paying Fixed Amounts due under Hedging Credit Default Swaps), the Total Return Swap and Eligible Investments are insufficient to make payments of interest when due on the Notes, the Issuer will have no assets available for payment of the deficiency. The Issuer's ability to make interest payments, principal repayments and distributions in respect of the Notes and the Preference Shares will be constrained by the terms of the Master Agreement, the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap, including, in the event that the Master Agreement is terminated, the requirement to pay a Swap Termination Payment to the Swap Counterparty.

Possible Delays in Payments on Notes; Effect of Unsettled Credit Events or Deliverable Obligations remaining in DO Collateral Subaccount on Initial Redemption Date; Reductions in Swap Counterparty Premium Payments. The Swap Counterparty is obligated to pay the Total Return Swap LIBOR Payment to the Issuer on each Distribution Date if the Total Return Swap is in effect. If, as a result of delays in the transmission of such payment, the Trustee does not receive immediately available funds in the Payment Account on a Distribution Date, the payment of interest on the Notes will also be delayed.

No Swap Counterparty Premium Payment will be made by the Swap Counterparty after the Initial Redemption Date. Following an Initial Redemption Date on which there are Unsettled Credit Events, no Swap Counterparty Premium Payment will be paid by the Swap Counterparty with respect to the Reference Obligations subject to Unsettled Credit Events for any period following the Initial Redemption Date. As a result, the payment of interest on the Notes which remain outstanding after the Initial Redemption Date may be delayed (and possibly not paid in whole) if there are Unsettled Credit Events which remain outstanding after the Initial Redemption Date.

No Total Return Swap LIBOR Payment will be made by the Swap Counterparty after the Initial Redemption Date (except with respect to any Holdback Amount). If the principal amount of a Note is not paid in full on the Initial Redemption Date because there are Deliverable Obligations in the DO Collateral Subaccount, it is unlikely that the interest (if any) paid on the Deliverable Obligations will be sufficient to pay interest when due on the Notes.

The Issuer is required to follow the procedure set forth in the Total Return Swap in order to obtain payment by the Swap Counterparty of the Final Total Return Amount, the Holdback Release Amount and the Principal Amortization Release Amount, which involves the Swap Counterparty soliciting bids for each Underlying Asset from dealers and the Issuer selling such Underlying Asset to the highest bidder. In the event that these procedures are not completed by the relevant Distribution Date, the Issuer will not obtain the payment under Total Return Swap which it requires to make the payments due on such Distribution Date. If the Holdback Release Amount and the Principal Amortization Release Amount is less than the minimum denomination of any Underlying Asset, the Issuer will not be able to obtain any payment under the Total Return Swap in respect of such amount.

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The Swap Counterparty Premium Payments payable to the Issuer on any Distribution Date also will be reduced as a result of any reductions to the Reference Obligation Notional Amount with respect to any Reference Obligation and as a result of the occurrence of an Interest Shortfall with respect to any Reference Obligation.

Credit Exposure to Underlying Assets. The Noteholders will be exposed to the credit risk of the Underlying Assets and the risk that, upon liquidation, the proceeds of the Underlying Assets will be less than their par or principal amount. If the Master Agreement is terminated and the Swap Counterparty is not the sole "defaulting party" or sole "affected party," the Trustee will, out of the proceeds of the Underlying Assets, pay all amounts due to the Swap Counterparty under the Master Agreement (including any Swap Termination Payment and Unpaid Amounts owed to the Swap Counterparty and any Supersenior Funded Amount and Supersenior Funded Amount Interest) and all expenses of the Issuer before distributing the remaining proceeds to the Noteholders and Preference Shareholders. The amounts so distributed to the Noteholders and Preference Shareholders could be substantially less than the Noteholders' original investment in the Notes and Preference Shareholders' original investment in the Preference Shares and could even be zero.

Subsequent to the Closing Date the Swap Counterparty will have the right under the Total Return Swap to direct the Issuer to exchange all or any portion of the Underlying Assets, or invest any cash in the UA Collateral Subaccount, in Underlying Assets which may have a rating from a Standard & Poor's as low as "AA-". The Swap Counterparty also may terminate the Total Return Swap, either in whole or with respect to specific Underlying Assets, in which event the Issuer will be exposed to both the credit risk of that asset and the risk that, upon liquidation, the proceeds of an Underlying Asset will be less than its principal amount.

This Offering Circular does not provide detailed information with respect to the Underlying Assets or with respect to any rights or obligations, legal, financial or otherwise, arising thereunder. Any information concerning the Underlying Assets or the issuer thereof that is set forth herein is based upon publicly available sources, has not been independently checked or verified by the Initial Purchaser, the Placement Agent, the Swap Counterparty, the Collateral Manager, the Trustee or anyone else, and does not purport to be complete or to include information which may be material to a prospective investor in the Notes. Prospective purchasers of the Offered Securities are urged to undertake their own investigation of these and other matters relating to the Underlying Assets.

No Legal or Beneficial Interest in Reference Obligations. The Issuer will have a contractual relationship under the Credit Default Swaps and the Hedging Credit Default Swaps with the Swap Counterparty only, and not with the Reference Entities. Consequently, a Credit Default Swap or Hedging Credit Default Swap does not constitute a purchase or other acquisition or assignment of any interest in any Reference Obligation. Moreover, the Swap Counterparty will not grant the Issuer or the Trustee any security interest in any Reference Obligation, and the Swap Counterparty will not be required to own or hold any Reference Obligations. The Issuer and the Trustee, therefore, will have rights solely against the Swap Counterparty in accordance with each Credit Default Swap and each Hedging Credit Default Swap, and will have no recourse against any Reference Entities. Under each Credit Default Swap and the Hedging Credit Default Swap, none of the Issuer, the Trustee, the Noteholders or any other entity will have any rights to acquire from the Swap Counterparty (or to require the Swap Counterparty to transfer, assign or otherwise dispose of) any interest in any Reference Obligation. In addition, the Issuer will not have any voting or other consensual rights of ownership with respect to the Reference Obligation. The Issuer will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

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Reliance on Creditworthiness of the Swap Counterparty. The ability of the Issuer to meet its obligations under the Notes and to make distributions on the Preference Shares will be dependent, in part, on its receipt of payments from the Swap Counterparty under the Credit Default Swaps, the Hedging Credit Default Swaps and the Total Return Swap. The Issuer will have a contractual relationship only with the Swap Counterparty; consequently, the Issuer is relying not only on the creditworthiness of the Reference Entities related to the Reference Obligations, but also on the creditworthiness of the Swap Counterparty to perform its obligations under the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Total Return Swap. In addition, in the event of the insolvency of the Swap Counterparty, the Issuer will be treated as a general creditor of the Swap Counterparty and will not have any claim with respect to the Reference Obligations. As a result, the Credit Default Swaps and Hedging Credit Default Swaps entered into with the Swap Counterparty will subject the Noteholders and Preference Shareholders to an additional degree of risk with respect to defaults by the Swap Counterparty as well as to the risk of defaults by the Reference Entities.

The Swap Counterparty has no obligation to acquire or transfer any rights it may hold under any Reference Obligations of the Reference Entities or any other related documents.

The insolvency of the Swap Counterparty or a default by it under the Master Agreement would adversely affect the ability of the Issuer to pay interest under the Notes and to make distributions on the Preference Shares.

Insolvency Considerations With Respect to Reference Entities. Various laws enacted for the protection of creditors may apply to the Reference Obligations. The information in this paragraph is applicable with respect to Reference Entities which are U.S. issuers. There are different insolvency risks with respect to Reference Entities which are non-U.S. issuers. If a court were to find that a Reference Entity did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the applicable Reference Obligation and, after giving effect to such indebtedness, the issuer (i) was insolvent, (ii) was engaged in a business of which the remaining assets of such issuer 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 invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, subordinate such indebtedness to existing or future creditors of such issuer or recover amounts previously paid by such issuer in satisfaction of such indebtedness. Generally, a U.S. Reference Entity would be considered insolvent at a particular time if the sum of its debts was 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 become absolute and matured. There can be no assurance, however, as to what standard a court would apply in order to determine whether the issuer was "insolvent" after giving effect to the incurrence of the indebtedness constituting the security or that, regardless of the method of valuation, a court would not determine that the issuer was "insolvent" upon giving affect to such incurrence. In addition, in the event of the insolvency of an issuer of a security, payments made on such 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 under Federal bankruptcy law or even longer under state laws) before insolvency.

Termination of the Master Agreement. In the circumstances specified in the Master Agreement, the Issuer or the Swap Counterparty may terminate the Master Agreement (and the Credit Default Swaps, Hedging Credit Default Swaps, Total Return Swap and Supersenior Swap). The Master Agreement is subject to early termination by the Issuer in the event of an "event of default" by the Swap Counterparty or a "termination event" (as such terms are defined in the Master Agreement) affecting the Swap Counterparty under the Master Agreement. The Master Agreement is subject to early termination by the Swap Counterparty in the event of an "event of default" by the Issuer or a "termination event" affecting the Issuer under the Master Agreement. See "The Master Agreement—Early Termination."

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Under the Master Agreement, with respect to an "event of default" or a "termination event," the non-defaulting party or the non-affected party will designate the Early Termination Date and will determine the Swap Termination Payment with respect to the Credit Default Swaps and Hedging Credit Default Swaps payable to or by the Issuer, or as applicable, to or by the Swap Counterparty. Such an early termination of the Master Agreement following an "event of default" or "termination event" will also cause a Mandatory Redemption under the Indenture. See "Description of the Notes—Mandatory Redemption." Following the effective designation of an Early Termination Date, no further payments, other than the Swap Termination Payment and Unpaid Amounts will be required to be made by either the Issuer or the Swap Counterparty under the Master Agreement, except that amounts may be payable to the Swap Counterparty from any Holdback Amount. In addition, the Total Return Swap will terminate and the Swap Counterparty or the Issuer will make the payments of the Final Total Return Amounts. In the event that there is a Holdback Amount, the Issuer will retain Underlying Assets with a principal amount or Certificate Balance equal to the Holdback Amount, and the Final Total Return Amount payable on the Initial Redemption Date by the Swap Counterparty or the Issuer will exclude the principal amount or Certificate Balance of Underlying Assets equal to the Holdback Amount. On the Notice Delivery Period Expiration Redemption Date, Underlying Assets with a principal amount or Certificate Balance equal to the Holdback Release Amount will be liquidated, and the TRS Outstanding Principal Amount of the transactions in respect of such Underlying Assets will be reduced by the principal amount or Certificate Balance so liquidated. On the last Delivery Date under the Credit Default Swaps the Total Return Swap will terminate. However, the Swap Counterparty may exercise its right upon the occurrence of an Optional Termination Event to terminate the Total Return Swap on or prior to the Early Termination Date.

Other than the amount of the payments or deliveries accrued thereunder through the Early Termination Date, and, in the case of the Total Return Swap, in respect of Failed Delivery Events, the Master Agreement provides that no Swap Termination Payment will be payable by the Issuer or the Swap Counterparty in connection with the termination of the Total Return Swap or the Supersenior Swap. However, there can be no assurance that this limitation will be enforceable against the Swap Counterparty in order to prevent it from claiming that the Issuer should pay a Swap Termination Payment to the Swap Counterparty.

In the event that the Master Agreement is terminated, the Issuer will not be able to enter into a new 1992 ISDA Master Agreement with a replacement swap counterparty.

As described in "The Master Agreement—Early Termination," following a termination of the Master Agreement, the Issuer may be obliged to pay a Swap Termination Payment to the Swap Counterparty. Swap Termination Payments payable by the Issuer will rank senior to all payments in respect of the Notes and will reduce the amount available to make payments on the Notes, and may result in a loss to the Noteholders and Preference Shareholders, which loss could be substantial.

If the Master Agreement is terminated, the Offered Securities will be redeemed at the time of such termination and any Swap Termination Payment paid by the Issuer also would reduce the principal amount or Certificate Balance of the Underlying Assets available to pay the principal amount of and interest on the Notes and any Swap Termination Payment will reduce the funds available to make distributions on the Preference Shares.

The Master Agreement also will terminate upon an Optional Redemption, Auction Call Redemption, a Tax Redemption or an Accelerated Maturity Date. In any such event the Swap Termination Payment (or, in the case of an Auction Call Redemption, a payment would be due from the Issuer to Eligible Dealer(s)) will be determined in accordance with the Liquidation Procedures. See "Description of the Notes—Liquidation Procedures." If a Swap Termination Payment would be due from

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the Issuer to the Swap Counterparty (or, in the case of an Auction Call Redemption, the payment by the Issuer to Eligible Dealer(s)), the Issuer may not be able to consummate an Optional Redemption, Tax Redemption or Auction Call Redemption and may not be able to meet one or more of the required conditions to liquidate the Collateral following an Event of Default.

Illiquidity of Credit Default Swaps; Effect of Credit Spreads on Swap Termination Payment. The amount of the Swap Termination Payment that will result from the Liquidation Procedures or the calculation of "Loss" pursuant to the Master Agreement under the Master Agreement is very difficult to predict. The market for credit default swaps on Asset-Backed Securities has only existed for a few years and is not liquid (compared to the market for credit default swaps on investment grade corporate reference entities). Credit default swaps with "pay as you go" credit events similar to the Credit Default Swaps have only recently been introduced into the market, and the terms have not yet been standardized and may change significantly after the Closing Date (which will make it more difficult to implement the Liquidation Procedures or determine the "Loss" pursuant to the Master Agreement). The current premiums which a "buyer" of protection will pay under credit default swaps for reference obligations which are Asset-Backed Securities are at very low levels (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. 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 or the prevailing credit premiums on credit default swaps on Asset-Backed Securities increase after the Closing Date, the amount of the Swap Termination Payment due to the Swap Counterparty could increase by a substantial amount.

Supersenior Swap. If the Issuer does not have sufficient funds in the Collateral Account, it will need to obtain an advance under the Supersenior Swap in order to pay any Floating Amount or Physical Settlement Amount when due under the Credit Default Swaps. If the Aggregate Portfolio Loss Amount exceeds the Supersenior Threshold Amount, the Swap Counterparty will, pursuant to the Supersenior Swap, make an advance in the amount of any Writedown Amount, Principal Shortfall Amount or Physical Settlement Amount owed by the Issuer to the Swap Counterparty under any Credit Default Swap. Once a Supersenior Funded Amount is paid by the Swap Counterparty, any Additional Fixed Amounts (other than an Interest Shortfall Reimbursement Amount), Deliverable Obligation Sales Proceeds (other than any portion constituting Interest Proceeds) or Deliverable Obligation Payments (other than any portion constituting Interest Proceeds) received by the Issuer will be paid directly to the Swap Counterparty until such payment by the Swap Counterparty has been reimbursed. The Issuer will pay to the Swap Counterparty interest on such Supersenior Funded Amount at a rate equal to the Supersenior Rate. A Supersenior Funded Amount may be outstanding for an extended period of time because (in most circumstances) the Issuer has two years within which to sell a Deliverable Obligation after the Delivery Date.

Payment of the Supersenior Funded Amount and Supersenior Funded Amount Interest will be payable prior to payment of amounts owed to the holders of the Notes and the Preference Shares. The payment by the Issuer of Supersenior Funded Amount Interest may result in the Issuer not having sufficient Interest Proceeds on a Distribution Date to pay interest on the Notes when due, which would result in an Event of Default if the interest on the Class A Notes or Class B Notes is not paid when due. The payment of the Supersenior Funded Amount and (if not paid from Interest Proceeds) the Supersenior Funded Amount Interest may result in the principal amount of the Notes not being paid in full when due.

On the Business Day following the Funded Amount Trigger Date, the Swap Counterparty will pay to the Issuer any interest received from the Issuer on the Supersenior Funded Amount which remains outstanding on the Funded Amount Trigger Date. However, the Issuer will not earn any interest on such amount.

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In addition, the Supersenior Swap provides that on and after the Physical Settlement Trigger Date, the Swap Counterparty, and not the Issuer, will receive all Deliverable Obligations (or, on the Physical Settlement Trigger Date, a portion thereof) to be delivered pursuant to the Credit Default Swaps upon payment of the related Physical Settlement Amounts, and the Issuer will not receive any of the income or sale proceeds of such Deliverable Obligations.

Although MLI is the "Swap Counterparty" under the Supersenior Swap, MLI may agree with any Supersenior Institution that MLI will exercise its rights as the Swap Counterparty at the direction of the Supersenior Institution. The interests of the Supersenior Institution are different than the interests of the Noteholders and the Preference Shareholders, and the Supersenior Institution has no obligation to consider the interests of the Noteholders and the Preference Shareholders when the Supersenior Institution directs MLI to exercise its rights under the Indenture and the Master Agreement.

Pursuant to the Supersenior Swap, the Issuer will pay a Structuring Fee to the Swap Counterparty in accordance with the Priority of Payments.

Credit Ratings. The credit ratings of the Reference Obligations represent the rating agencies' opinions regarding such Reference Obligations' 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, the ratings assigned to the Reference Obligations by the rating agencies may not fully reflect the true risks which the Issuer is assuming by entering into the Credit Default Swaps related to the Reference Obligations. Also, the rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that a Reference Obligation's current financial condition may be better or worse than a rating indicates.

In addition, the ratings assigned to the Reference Obligations by each rating agency may be downgraded or withdrawn at any time.

Asset-Backed Securities. The Reference Obligations and the Underlying Assets consist of Asset-Backed Securities. Asset-Backed Securities are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from, or market value of, 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 the Asset-Backed Securities. See "Security for the Notes—Asset-Backed Securities."

Asset-Backed Securities are subject to various risks, including credit risks, liquidity risk, interest rate risk, market risk, operations risks, structural risks and legal risks, which affect the price and liquidity of Asset-Backed Securities, the valuation of Asset-Backed Securities and the related credit default swap market. Credit risk is an important issue in Asset-Backed Securities because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all Asset-Backed Securities are similar, individual transactions can differ markedly in both structure and execution, which affects the market with respect to such assets. 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

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assets is obligated to provide support to the issuing vehicle or to the investors in such Asset-Backed Securities.

The market value of the Reference Obligations and the Underlying Assets generally will fluctuate with, among other things, the financial condition of the obligors on or issuer of the Reference Obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in 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 Reference Obligations and the Underlying Assets is likely to decline and, in the case of a substantial spread widening, could decline by a substantial amount.

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

The Reference Obligations are 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, most of the Reference Obligations have structural features that divert payments of interest and/or principal from the Reference Obligation to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such Reference Obligations have a higher risk of loss as a result of delinquencies or losses on the underlying assets. Additionally, as a result of cash flow being diverted to payments of principal on more senior classes, the average life of such Reference Obligations 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. Asset-Backed Securities which are subordinate are more likely to experience Credit Events. Generally, these types of Asset-Backed Securities are illiquid and difficult to value. Furthermore, because subordinate Asset-Backed Securities may represent a relatively small percentage of the size of the asset pool being securitized, the impact of a relatively small loss on the overall pool may have a substantial impact on the holders of such subordinate security. See "Security for the Notes—Asset Backed Securities" below.

Commercial Mortgage-Backed Securities. A portion of the Reference Obligations will consist of commercial mortgage-backed securities ("CMBS Securities"). Commercial mortgage loans underlying commercial mortgage-backed securities are generally secured by multi-family or commercial property and may entail risks of delinquency and foreclosure, and risks of loss in the event thereof, that are greater than similar risks associated with loans secured by single-family residential property. Residential mortgage-backed securities 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 Securities 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 Securities 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

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CMBS Securities. 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, and as a result, these features must be considered for any Reference Obligation which is a CMBS Security.

The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced (for example, if rental or occupancy rates decline or real estate tax rates or other operating expenses increase), the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things, tenant mix, success of tenant businesses, property management decisions (including responding to changing market conditions, planning and implementing rental or pricing structures and causing maintenance and capital improvements to be carried out in a timely fashion), property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property and the occurrence of any uninsured casualty at the property.

The value of an income-producing property is directly related to the net operating income derived from such property. Furthermore, the value of any commercial property may be adversely affected by risks generally incident to interests in real property, including various events which the related borrower and/or manager of the commercial property, the issuer, the depositor, the manager, the indenture trustee, the master servicer or the special servicer may be unable to predict or control, such as: changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies, including environmental legislation; acts of God; environmental hazards; and social unrest and civil disturbances. 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.

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

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

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Residential Mortgage-Backed Securities. The Reference Obligations will consist primarily of residential mortgage-backed securities ("RMBS"), including without limitation Residential A Mortgage Securities, Residential B/C Mortgage Securities and Home Equity Loan Securities, including subprime mortgage securities.

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

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

RMBS may be backed by non-conforming mortgage loans, 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 adverse 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 residential mortgage loans involve a greater risk to a lender than fully-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the

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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.

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

The rate of interest payable on RMBS may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap." As a result of this cap, the amount of interest received on such RMBS is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors. Many of the RMBS which are Reference Obligations 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 resulting in Interest Shortfalls and thereby reducing the Fixed Amounts payable by the Swap Counterparty under the Credit Default Swaps.

Legal risks can arise as a result of the procedures followed in connection with the origination of the mortgage loans for an issue of RMBS or the servicing thereof which 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. Violations 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.

Violations of consumer protection laws may result in losses on RMBS. 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 RMBS. 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 an RMBS 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

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addition, could subject the owner of a mortgage loan to damages and administrative enforcement. The mortgage loans backing an RMBS 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;

(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.

Failure to comply with state and federal consumer protection laws and related statutes could subject the lenders under the mortgage loans backing an RMBS to specific statutory liabilities, and may limit the ability of an issuer of an RMBS to collect all or part of the principal of or interest on the related underlying mortgage loans or subject such issuer to damages and administrative enforcement.

In some cases, liability of a lender under a mortgage loan may affect subsequent assignees of such obligations, including the issuer of an RMBS. In particular, a lender's failure to comply with the 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 RMBS. If an issuer of RMBS 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 RMBS. In such event, the Issuer, as holder of such RMBS, could suffer a loss.

In addition to the laws described above, a number of legislative proposals have been introduced at both the federal, state and municipal level that are 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. An originator's failure to comply with these laws could subject the issuer of an RMBS to monetary penalties and could result in the borrowers rescinding the loans underlying such RMBS.

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Some of the mortgage loans backing an RMBS 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 RMBS 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 and state debtor relief laws, may also adversely affect the ability of an issuer of an RMBS to collect the principal of or interest on the loans, and holders of the affected RMBS may suffer a loss if the applicable laws result in these loans becoming uncollectible.

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

The RMBS included in the Reference Obligations are 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 residential mortgage loans. In addition, in the case of many of the RMBS included in the Reference Obligations, no (or restricted) 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, these subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities, are more likely to experience Floating Amount Events and Credit Events, and are very illiquid and difficult to value.

The Reference Obligations which are RMBS include available funds caps and, as a result, the Fixed Amounts payable by the Swap Counterparty to the Issuer will be reduced if the available funds cap causes an Interest Shortfall to occur. As a result, interest payments on RMBS are subject to the risks discussed above with respect to returns on the underlying mortgage loans, whether as a result of fluctuations in interest rates, principal prepayments or otherwise. This could have an adverse effect on the Issuer's ability to pay interest on the Notes and to make distributions on the Preference Shares.

Many of the Reference Obligations are 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 Securities.

CDO Reference Obligations. Certain of the Reference Obligations are CDO Securities (each, a "CDO Reference Obligation"). The Initial Underlying Asset is a CDO Security. CDO Reference Obligations are securities issued by an entity (a "CDO") which 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 CDO Reference Obligations) on the cash flow from a portfolio consisting primarily of commercial and industrial bank loans, trust preferred securities, corporate debt securities and/or Asset-Backed Securities.

CDO Reference Obligations are subject to many of the same risks described herein under "Risk Factors" and are subject to credit, liquidity and interest rate risks. The value of the CDO Reference Obligations generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the underlying assets of the CDO Reference Obligation ("CDO Collateral"), general economic

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

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

The CDO Reference Obligation related to a Credit Default Swap may have an underlying portfolio that includes Asset-Backed Securities which are the Reference Obligations of other Credit Default Swaps included in the Collateral. The concentration in any particular Asset-Backed Security may adversely affect the Issuer's ability to make payments on the Offered Securities. In addition, the underlying portfolios of the CDO Reference Obligations may be actively traded. As a result, investors in the Offered Securities are exposed to the risk of loss on such CDO Securities both directly and indirectly. If an investor in the Offered Securities is also an investor in any CDO Security which is a Reference Obligation for a Credit Default Swap (or in other tranches of securities sold by the same issuer), the exposure of such investor to the risk of loss on such CDO Security will increase as a result of its investment in the Offered Securities. The Initial Purchaser acted as the placement agent for certain of the CDO Reference Obligations.

The CDO Collateral may consist of high-yield debt securities and loans to borrowers generally rated below investment grade, subordinated Asset-Backed Securities and other subordinated debt instruments. High-yield debt securities are generally unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower rating of high-yield debt securities, below investment grade loans and subordinated Asset-Backed Securities reflects a greater possibility that adverse changes in the financial condition of an issuer, general economic conditions or both may impair the ability of the issuer to make payments of principal or interest. Such investments may be speculative.

CDO Reference Obligations are subject to interest rate risk. The CDO Collateral will include assets that bear interest at a fixed rate while the CDO Securities issued by the CDO typically bear interest at a floating rate. As a result, there could be a floating/fixed rate or basis mismatch between such CDO Reference Obligations and underlying portfolios which bear interest at a fixed rate, and there may be a timing or basis mismatch between the CDO Reference Obligations and CDO Collateral that bear interest at a floating rate as the interest rate on such floating rate CDO Collateral may adjust more frequently or less frequently, on different dates and based on different indices, than the interest rates on the CDO Reference Obligations. As a result of such mismatches, an increase or decrease in the level of the London interbank offered rate and other floating rate indices could adversely impact the ability of the Reference Entity to make payments on the CDO Reference Obligations.

The risks associated with CDO Reference Obligations may in addition depend on the skill and experience of the collateral manager managing the CDO Collateral, in particular, if the Reference Obligation Document provides for active trading in securities comprising the CDO Collateral. This risk is greater if the CDO Collateral itself consists of collateralized debt obligations that rely on the skill and experience of the related collateral managers.

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The CDO Reference Obligations will be subordinated to other notes issued by the Reference Entity and, as a result, a Credit Event and Floating Amount Events are more likely to occur. To the extent that any losses are incurred by a CDO, such losses will be borne by holders of the mezzanine tranches (such as the CDO Reference Obligations) 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 Securities 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 (such as the CDO Reference Obligations).

All or a portion of the CDO Reference Obligations are PIK Reference Obligations, as to which an Interest Shortfall and/or a PIK Reference Obligation Event may occur if the interest on such CDO Reference Obligation is deferred or "paid in kind."

International Investing. A portion of the aggregate Reference Portfolio may consist of Reference Obligations incorporated in a jurisdiction outside of 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, (iv) risks of economic dislocations in the host country, (v) less data on historic default and recovery rates and (vi) unfavorable bankruptcy laws which may have a negative impact on recoveries and the applicable market value of a Deliverable Obligation delivered in connection with any Physical Settlement. Moreover, foreign companies may not be subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies.

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. 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, 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 value of non-U.S. Reference Obligations. 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.

Certain Considerations Relating to Service of Process/Enforcement of Judgments. 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 Maples and Calder, 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

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of judgments of the United States courts, of liabilities predicated solely upon United States securities laws. The Issuer will appoint National Corporate Research, Ltd., 225 West 34th Street, Suite 910, New York, New York 10122 as its agent in New York for service of process.

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

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

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

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

As a prospective purchaser of an Offered Security, please note that the Issuer will not be in a position to, and will not, comply with the calculation, notification, publication and certification requirements necessary for any of the Offered Securities to be considered as units in a Transparent Fund or a partially Transparent Fund. Instead you should expect that if one or more Classes of Notes were to be qualified as investment units these units would be qualified as units in a Non-Transparent Fund. In consequence, you would be taxed on the distributions made in respect of the Offered Securities plus annually on 70% of the excess of the last redemption price over the first redemption price determined in

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respect of the Offered Securities in the calendar year; and in any event, at least 6% of the last redemption price determined in each calendar year would be assessed. If a redemption price is not determined, the exchange or market price is used to calculate the taxable amount. Further, you would be taxed on 6% of the consideration for the redemption or disposal of the Offered Securities (so-called "Interim Profit Taxation").

A prospective purchaser is therefore strongly advised to consult its own tax advisor as to the tax consequences of the purchase, ownership and disposition of any Offered Security.

Insurance Regulatory Matters. Credit derivative products (including the Credit Default Swaps) share some of the risk-transfer characteristics found in insurance products. The Issuer believes that a Credit Default Swap is not an insurance contract and the Issuer does not plan to obtain any license pursuant to any insurance law, although there can be no assurance as to how a court or regulator would rule on these matters. If a court or insurance regulatory authority in the United States were to determine that a Credit Default Swap is "insurance" or an "insurance contract" and that the Issuer is engaged in an "insurance business" within a particular state of the United States, unless some exemption otherwise applied the Issuer could become subject to regulation by the insurance authorities in the states in which it operates and could be required to apply to such authorities for any applicable license and there can be no assurance that any such license would be granted. Any such regulation would cause the Issuer to incur additional costs (which the Issuer has only limited funds to pay) related to such regulations and applications. Moreover, if this were to occur, the Credit Default Swaps, the Hedging Credit Default Swaps or the Indenture might be enforceable only to the extent that they conform with applicable insurance law and regulations. As a result, the Issuer's ability to make payments when due under the Notes and to make distributions on the Preference Shares could be adversely affected. In the event that a Credit Default Swap or a Hedging Credit Default Swap is determined to be an insurance contract or the Issuer is determined to be in the insurance business, the Master Agreement may be subject to termination based on "Illegality" (as defined therein).

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 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

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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.

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.

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.

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

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner of (A) a Regulation S Note (or any interest therein) is a U.S. Person or (B) a Restricted Note is not a Qualified Institutional Buyer (or, in the case of an Original Purchaser of such Restricted Note, an Accredited Investor) and also a Qualified Purchaser, the Co-Issuers shall require, by notice to such holder, that such holder sell all of its right, title and interest to such Note (or interest therein) to a Person that is (1) not a U.S. Person (in the case of a person acquiring its interest through a Regulation S Global Note) or (2) in the case of a person acquiring its interest through a Restricted Note, both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee and approved by the Collateral Manager 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 acquiring its interest through a Regulation S Note) or (B) in the case of a person acquiring its interest through a Restricted Note, is a (a) Qualified Institutional Buyer and (b) a Qualified Purchaser and

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

The Preference Share Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner of Preference Shares (A) in the case of Regulation S Preference Shares, is a U.S. Person (within the meaning of Regulation S under the Securities Act) and (B) in the case of Restricted Definitive Preference Shares, is not both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (ii) a Qualified Purchaser, then the Issuer shall require, by notice to such holder, that such holder sell all of its right, title and interest to such Preference Shares (or interest therein) to a person that will take delivery of a Restricted Definitive Preference Share and that is both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Restricted Definitive Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (a) upon direction from the Issuer, the Preference Share Paying Agent, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale arranged by the Collateral Manager on behalf of the Issuer (conducted by an investment bank selected by the Preference Share Paying Agent and approved by the Collateral Manager 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 will take delivery of a Restricted Definitive Preference Share and that certifies to the Preference Share Paying Agent, the Collateral Manager, the Preference Share Registrar and the Issuer, in connection with such transfer, that such person is a both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Restricted 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), (ii) a Qualified Purchaser and (iii) not a Benefit Plan Investor or a Controlling Person and (b) pending such transfer, no further payments will be made in respect of such Preference Share held by such beneficial owner.

The Preference Share Paying Agency Agreement provides that if the Issuer determines that any beneficial owner of a Preference Share (other than an Original Purchaser of a Restricted Definitive Preference Share) is a Benefit Plan Investor or a Controlling Person, or that an Original Purchaser did not disclose at the time of its acquisition of such interest whether it is a Benefit Plan Investor (including insurance company general accounts with assets constituting plan assets) or a Controlling Person, or, subsequent to the purchase of a Preference Share such beneficial owner is or has become a Benefit Plan Investor (including insurance company general accounts with assets constituting plan assets) or a Controlling Person, then the Issuer shall require that such beneficial owner sell all of its right, title and interest in or to such Preference Shares as further described herein under "Description of the Preference Shares—Registration and Transfer."

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ERISA Considerations. The Issuer intends to restrict ownership of the Preference Shares so that no assets of the Issuer will be deemed to be "plan assets" subject to the provisions of Title I of ERISA and/or the prohibited transaction provisions of Section 4975 of the Code as such term is defined in the Plan Asset Regulation issued by the United States Department of Labor. Accordingly, the Issuer intends to restrict the acquisition of Preference Shares by "Benefit Plan Investors" (as that term is defined in the Plan Asset Regulation) and Controlling Persons so that, on the Closing Date, less than 25% of the value of all Preference Shares (excluding Preference Shares held by Controlling Persons) are held by Benefit Plan Investors. There can be no assurance, however, that ownership of Preference Shares by Benefit Plan Investors will always remain at or below the 25% threshold established under the Plan Asset Regulation. Each Original Purchaser or transferee of a Regulation S Preference Share or an interest therein 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 to the effect that (i) it is not a Benefit Plan Investor or a Controlling Person and (ii) it will not transfer such Regulation S Preference Share or an interest therein except in compliance with the transfer restrictions set forth in such letter. Each Original Purchaser of a Preference Share and each transferee of a Restricted Definitive Preference Share will be required to execute and deliver to the Preference Share Paying Agent an Investor Application Form or transferee certificate (in the form attached to the Preference Share Paying Agency Agreement), as applicable.

Each Original Purchaser of a Restricted Definitive Preference Share will be required to certify whether or not it is a Controlling Person or a Benefit Plan Investor. If it is a Benefit Plan Investor, it will be required to certify that its investment in Preference Shares will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental or church plan, will not result in a non-exempt violation of any Similar Law).

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, or an interest therein will be deemed to represent and (or, if required by the Indenture, a transferee will be required to certify) either that (a) it is not (and, for so long as it holds any Note, or interest therein, will not be) and is not acting on behalf of (and, for so long as it holds any Note, or interest therein, will not be acting on behalf of) an employee benefit plan subject to Title I of ERISA, a plan described in Section 4975 of the Code that is subject to the prohibited transaction provisions of Section 4975 of the Code, a governmental or church plan subject to any Similar Law, or an entity that is deemed to hold the assets of any such plan pursuant to 29 C.F.R. Section 2510.3-101 which plan or entity is subject to Title I of ERISA, the prohibited transaction provisions of Section 4975 of the Code or any Similar Law, or (b) its acquisition and holding of such Note will not constitute a non-exempt prohibited transaction in violation of Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental or church plan, will not result in a non-exempt violation of any Similar Law).

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

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

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

Certain Legal Investment Considerations. None of the Issuer, the Co-Issuer, the Collateral Manager, the Initial Purchaser or the Placement Agent make 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 the 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, the Initial Purchaser or the Placement Agent make 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.

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.

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 or 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."

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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 135 South LaSalle Street, Suite 1511, Chicago, Illinois 60603; Attention: CDO Trust Services Group—Khaleej II CDO, Ltd.

Status and Security

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

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

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

Interest

The Class A Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 0.55%. The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 0.85%. The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 1.50%. The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR plus 2.85%. 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) (i) in the case of the initial Interest Period, the period from and including the Closing Date to but excluding the first applicable Distribution Date, and (ii) thereafter, the period from and including such Distribution Date immediately following the last day of the immediately preceding Interest Period to but excluding the next succeeding Distribution Date.

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Notwithstanding anything to the contrary above, with respect to each Distribution Date after the Initial Redemption Date, if any Notes remain outstanding, the interest will accrue on the outstanding principal amount of such Notes from and including the Initial Redemption Date (and each Distribution Date after the Initial Redemption Date) to such Distribution Date at a Note Interest Rate of LIBOR, and a failure to pay the full amount of interest due on the Notes on any Distribution Date after the Initial Redemption Date will not be a Default or an Event of Default, but such interest will be payable (together with interest at LIBOR) on the next Distribution Date (if any) on which funds are available to pay such amount in accordance with the Priority of Payments.

Interest on the Notes will be payable in U.S. dollars (i) quarterly in arrears on each March 20, June 20, September 20 and December 20 (each, a "Quarterly Distribution Date"), commencing December 20, 2005 and terminating on the Initial Redemption Date and (ii) on each other Distribution Date. "Distribution Date" means (i) a Quarterly Distribution Date, (ii) the Accelerated Maturity Date, (iii) in the event that there are Unsettled Credit Events or Deliverable Obligations credited to the DO Collateral Subaccount on the Initial Redemption Date, the Notice Delivery Period Expiration Redemption Date (if there is a Holdback Release Amount) and the Business Day following each Deliverable Obligation Sale Date thereafter and (iv) the Business Day after each Additional Fixed Amount Payment Date occurring after the Initial Redemption Date; *provided* that the final Distribution Date shall be the Stated Maturity (unless there are Unsettled Credit Events, Net Unreimbursed Floating Amounts or Deliverable Obligations credited to the DO Collateral Subaccount on the Initial Redemption Date, in which case the final Distribution Date shall occur no later than the Extended Maturity Date). If any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day. Payments of principal of and interest on the Notes on any Distribution Date will be made if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein. See "Description of the Notes—Interest."

The Effective Date of certain of the Credit Default Swaps is July 15, 2005. Accordingly, an amount (the "Initial Payment") equal to the accrued Fixed Amounts payable under those Credit Default Swaps from July 15, 2005 through the Closing Date will, pursuant to the Master Confirmation, be deposited by the Swap Counterparty into the Interest Collection Account on the Closing Date, treated as Interest Proceeds and applied in accordance with the Priority of Payments on the first Distribution Date.

So long as any Class A 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 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 1.50% *per annum* and shall be payable on the first Distribution Date on which funds are permitted to be used for such purpose in accordance with the Priority of Payments. Upon the payment of Class C Deferred Interest Amount, the Aggregate Outstanding Amount of the Class C Notes will be reduced by the amount of such payment.

So long as any Class A 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

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become Class D Deferred Interest Amount unless Class A 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 2.85% *per annum* and shall be payable on the first Distribution Date on which funds are permitted to be used for such purpose in accordance with the Priority of Payments. Upon the payment of Class D Deferred Interest Amount, the Aggregate Outstanding Amount of the Class D Notes will be reduced by the amount of such payment.

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

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:

(i) On the second London Banking Day prior to the commencement of an Interest Period (each such day, a "LIBOR Determination Date"), LIBOR will be determined for such Interest Period as the rate, as obtained by the Calculation Agent, for three-month U.S. dollar deposits (or in the case of the Interest Periods described in subparagraph (iii) below, an interpolated rate) based on the rates which appear on Telerate Page 3750 (as defined in the 2002 ISDA Definitions published by the International Swaps and Derivatives Association, Inc.) as reported by Bloomberg Financial Markets Commodities News or which appears in such other page as may replace Telerate Page 3750, in each case, as of 11:00 a.m. (London time) on such LIBOR Determination Date.

(ii) If, on any LIBOR Determination Date, such rate does not appear on Telerate Page 3750 or such other page as may replace Telerate Page 3750, the Calculation Agent will determine the arithmetic mean of the offered quotations of the Reference Banks to leading banks in the London interbank market for three-month U.S. dollar deposits (or such other deposits, as applicable) in an amount determined by the Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (London time) on the 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 will equal such arithmetic mean of such quotations. If, on any LIBOR Determination Date, only one or none of the Reference Banks provides such a quotation, LIBOR will be deemed to be the arithmetic mean of the offered quotations that leading banks in The City of New York selected by the Calculation Agent (after consultation with the Collateral Manager) are quoting on the relevant LIBOR Determination Date for three-month U.S. dollar deposits (or such other deposits specified above, as applicable) in an amount determined by the Calculation Agent by reference to the principal London offices of leading banks in the London interbank market; *provided*, that if the Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, LIBOR for the immediately following Interest Period will be LIBOR as determined on the previous LIBOR Determination Date that relates to an Interest Period of similar length. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Calculation Agent.

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(iii) In respect of any Interest Period having a Designated Maturity other than three months, LIBOR will be determined through the use of straight-line interpolation by reference to two rates calculated in accordance with clauses (i) and (ii) above, one of which will 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 such Interest Period and the other of which will be determined as if such maturity were the period of time for which rates are available next longer than such Interest Period; *provided* that, if an Interest Period is less than or equal to seven days, then LIBOR will be determined by reference to a rate calculated in accordance with clauses (i) and (ii) above as if the maturity of the U.S. dollar deposits referred to therein were a period of time equal to seven days.

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

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

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

As soon as possible after 11:00 a.m. (London time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will notify the Co-Issuers, the Collateral Manager, the Trustee, each Paying Agent (other than the Preference Share Paying Agent), the Depositary, the Swap Counterparty, the Irish Stock Exchange (so long as any Class of Notes is listed thereon) and, if applicable, Euroclear and Clearstream, Luxembourg of the applicable *per annum* rate (the "Note Interest Rate") for each Class of Notes for the next Interest Period and the amount of interest for such Interest Period payable on the related Distribution Date in respect of each U.S.$1,000,000 principal amount of the Notes of each Class (rounded to the nearest cent, with half a cent being rounded upward). The Calculation Agent will also specify to the Co-Issuers and the Collateral Manager the quotations upon which the Note Interest Rates are based. The Calculation Agent will in any event notify the Issuer before 7:00 p.m. (London time) on each LIBOR Determination Date if it has not determined and is not in the process of determining the Note Interest Rates and the applicable amount of interest, together with its reasons therefor.

The determination of the Note Interest Rate and the amount of interest for the related Interest Period 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.

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.

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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 Stock Exchange 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 Trustee will arrange for such information to be published in the Irish Stock Exchange's Daily Official List.

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

Principal

The Stated Maturity of the Notes is the Distribution Date in September 2040. Each Class of Notes is scheduled to mature at the Stated Maturity unless redeemed or repaid prior thereto; *provided* that, if there are any Unsettled Credit Events, Net Unreimbursed Floating Amounts or Deliverable Obligations in the DO Collateral Subaccount on the Stated Maturity, a portion of the principal amount of the Notes may not be paid on the Stated Maturity and such remaining principal amount will be due and payable no later than the Extended Maturity Date. In the event that on the Stated Maturity or a Mandatory Redemption Date, there are Unsettled Credit Events, Net Unreimbursed Floating Amounts or any Deliverable Obligations credited to the DO Collateral Subaccount and any portion of the principal amount of a Class of Notes has not been paid in full, such Class of Notes shall remain outstanding until the earlier of (i) the Extended Maturity Date or (ii) the later of the Distribution Date on which the final distribution of Deliverable Obligation Sales Proceeds is made and the last Additional Fixed Amount is paid pursuant to the Credit Default Swaps. Any remaining Deliverable Obligations will be sold on the Extended Maturity Date. No Additional Fixed Amounts will be payable by the Swap Counterparty after the Extended Maturity Date.

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, Mandatory Redemption, Auction Call Redemption or Accelerated Maturity Date; and (b) on each Distribution Date after the Supersenior Notional Amount and the Supersenior Funded Amount have been reduced to zero, from Principal Proceeds in accordance with the Priority of Payments.

On the Stated Maturity or the Redemption Date, all of the Collateral will be liquidated and applied, after paying certain other amounts, in accordance with the Priority of Payments to pay the Supersenior Funded Amount and the Supersenior Funded Amount Interest, to pay principal of and accrued interest on the Notes in direct order of seniority and then to redeem the Preference Shares, except that, in the case of the Stated Maturity or on the Mandatory Redemption Date, a portion of the Collateral equal to the Holdback Amount will not be liquidated. In the event that the Holdback Amount is greater than zero on the Stated Maturity or the Mandatory Redemption Date, Underlying Assets and UA Eligible Investments in the UA Collateral Subaccount with a balance equal to the Holdback Amount will be retained in the UA Collateral Subaccount.

On the Notice Delivery Period Expiration Redemption Date, if the Holdback Release Amount is greater than zero, the Issuer will liquidate Underlying Assets with a principal amount or Certificate Balance equal to the Holdback Release Amount, and the Trustee will distribute the proceeds in accordance with the Priority of Payments. On each Delivery Date thereafter, the Issuer will liquidate Underlying Assets sufficient to pay the Physical Settlement Amount or, if the Total Return Swap is in

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effect, deliver to the Swap Counterparty (without any payment by the Swap Counterparty therefor) a principal amount or Certificate Balance of Underlying Assets (as agreed by the parties or, if the parties cannot agree, as designated by the Issuer) equal to the Physical Settlement Amount.

In addition, on and after the Initial Redemption Date, (i) Deliverable Obligation Sales Proceeds realized upon the sale of the Deliverable Obligations exchanged for the Physical Settlement Amount will be applied on the first Business Day after the Deliverable Obligation Sale Date and (ii) Additional Fixed Amounts received by the Issuer from the Swap Counterparty will be applied on the Business Day following receipt thereof, in each case in accordance with the Priority of Payments.

On any Distribution Date after the Supersenior Notional Amount and the Supersenior Funded Amount have been reduced to zero, Principal Proceeds will be released from the Collateral Account and will be applied in accordance with the Priority of Payments to pay principal of the Notes in direct order of seniority, with the principal of Class A Notes being paid prior to the payment of the principal of Class B Notes, the principal of Class B Notes being paid prior to the payment of the principal of Class C Notes and the principal of Class C Notes being paid prior to the payment of the principal of Class D Notes.

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

Mandatory Redemption

On the Stated Maturity of the Notes, or in the event that, prior to such date, the Master Agreement (and the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap made thereunder) is terminated by the Issuer or by the Swap Counterparty as the result of an "event of default" or "termination event" under the Master Agreement, the Collateral (other than any Holdback Amount) will be liquidated in accordance with the Liquidation Procedures and the Notes will be redeemed (i) on the Distribution Date as of which such termination is effective or, if it is effective on a date that is not a Distribution Date, on the next succeeding Distribution Date or on the Stated Maturity, whichever is applicable, (ii) if there is a Holdback Amount, on the Notice Delivery Period Expiration Redemption Date and on the first Business Day after each Deliverable Obligation Sale Date thereafter until the Holdback Amount has been reduced to zero and there are no Deliverable Obligations credited to the DO Collateral Subaccount and (iii) if there is a Net Unreimbursed Floating Amount on the Initial Redemption Date, on the first Business Day after each Additional Fixed Amount Payment Date (a "Mandatory Redemption" and the date of each such redemption, the "Mandatory Redemption Date"). In the event that the proceeds of the Collateral are not sufficient to repay the Aggregate Outstanding Amount of the Notes or the Issuer is required to make a Swap Termination Payment to the Swap Counterparty or is required to establish a Holdback Amount, the holders of the Securities may suffer a loss upon a Mandatory Redemption in inverse order of seniority.

Auction Call Redemption

In accordance with the Liquidation Procedures set forth in "—Liquidation Procedures," the Trustee will, at the expense of the Issuer, conduct a valuation (a "Valuation") of the Credit Default Swaps and the Hedging Credit Default Swaps if, on or prior to the Distribution Date occurring in September 2013, the Notes have not been redeemed in full. The Valuation will begin not later than (1) twenty five Business Days prior to the Distribution Date occurring in September 2013 or (2) if the Notes are not redeemed in full on such Distribution Date, twenty five Business Days prior to each Distribution Date thereafter until the Notes have been redeemed in full (each such date, a "Liquidation Valuation Date"). The Trustee will liquidate the Credit Default Swaps and the Hedging Credit Default Swaps at the Valuation; *provided* that:

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

(ii) the Liquidation Proceeds, if any, which the Issuer would receive for all of the Credit Default Swaps and the Hedging Credit Default Swaps, would result in Available Redemption Funds at least equal to the Total Senior Redemption Amount; *provided, however*, that, if the Issuer would be required to make a payment to the Swap Counterparty or to Eligible Dealer(s) under the Liquidation Procedures, such payment will be taken into account in the calculation of the Available Redemption Funds (this condition (ii) is referred to as the "Valuation Minimum Amount"); and

(iii) the Swap Counterparty (or the Swap Counterparty and (if the Eligible Dealer(s) will make a payment directly to the Issuer) the relevant Eligible Dealer(s), as applicable) enters into a written agreement with the Issuer (which the Issuer will execute if the conditions set forth in (i) and (ii) above are satisfied, which execution will constitute certification by the Collateral Manager that such conditions have been satisfied) that the Issuer will receive such Swap Termination Payment in cash on the Swaps Liquidation Date or make such payment to the Swap Counterparty or Eligible Dealer(s), if required by the Liquidation Procedures.

If all of the conditions set forth in clauses (i) through (iii) above have been met, and the satisfaction of these conditions is certified to the Trustee by the Collateral Manager, then the Trustee will terminate (or assign) the Credit Default Swaps and the Hedging Credit Default Swaps in accordance with and upon completion of the Liquidation Procedures and liquidate the other Collateral in accordance with the Total Return Swap and the directions of the Collateral Manager. The Trustee will deposit the Liquidation Proceeds for the Credit Default Swaps and the Hedging Credit Default Swaps (if any) in the Collection Accounts and (x) redeem the Notes, in whole but not in part, at the applicable Redemption Price, (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), in each case on the relevant Distribution Date (such redemption, an "Auction Call Redemption"). Any such payment to the Preference Share Paying Agent for distribution to the Preference Shareholders pursuant to clause (z) of the immediately preceding sentence may not be less than the Preference Share Redemption Date Amount (if any), unless all Preference Shareholders consent to such lesser amount (which may be zero).

If any of the foregoing conditions is not met with respect to any Valuation or the Issuer fails to receive the full Liquidation Proceeds in cash on the Swaps Liquidation Date, (a) the Auction Call Redemption will not occur on the relevant Distribution Date, (b) the Trustee will give notice of the withdrawal of the redemption notice on the Swaps Liquidation Date to the Issuer, the Collateral Manager, the Swap Counterparty and the holders of the Notes, (c) subject to clause (d) below, the Trustee will not terminate Credit Default Swaps or Hedging Credit Default Swaps in relation to such Valuation and (d) unless the Notes are redeemed in full prior to the next succeeding Liquidation Valuation Date, the Trustee will conduct another Valuation pursuant to the terms hereof.

Optional Redemption and Tax Redemption

Subject to certain conditions described herein, the Issuer shall 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 (i) on any Distribution

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Date prior to the Distribution Date occurring in September 2009, if a Downgrade Event has occurred or (ii) on any Distribution Date on or after the Distribution Date in September 2009; *provided* that, if there is a Consolidation Redemption Event, the Swap Counterparty may direct the Issuer at any time to redeem the Notes at the applicable Redemption Price, if it provides the Issuer, the Trustee and the Collateral Manager with an officer's certificate or an opinion of counsel certifying that a Consolidation Redemption Event has occurred.

In addition, upon the occurrence of a Tax Event (subject to the satisfaction of the Tax Materiality Condition) or a Swap Counterparty Tax Event, if the Swap Counterparty provides the Trustee, the Issuer and the Collateral Manager with an officer's certificate or an opinion of counsel certifying that a Swap Counterparty Tax Event has occurred, the Issuer shall redeem the Notes (such redemption, a "Tax Redemption") on any Distribution Date, in whole but not in part, at the applicable Redemption Price therefor (A) in the case of a Tax Event, (i) at the direction of the holders of a majority in Aggregate Outstanding Amount of any Class of Notes that, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest due and payable to such Class on any Distribution Date (each such Class, an "Affected Class") or (ii) at the direction of a Special-Majority-in-Interest of Preference Shareholders and (B) in the case of a Swap Counterparty Tax Event, at the direction of the Swap Counterparty.

No Optional Redemption or Tax Redemption may be effected, however, unless Available Redemption Funds (determined in accordance with the Liquidation Procedures) are at least equal to an amount sufficient to pay (in accordance with the Priority of Payments) the Total Senior Redemption Amount. The Liquidation Proceeds due to the Issuer (or the Swap Termination Payment due to the Swap Counterparty) in connection with an Optional Redemption or a Tax Redemption will be determined in accordance with the Liquidation Procedures.

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" will occur if (i) the Swap Counterparty is, or on the next scheduled payment date under any Credit Default Swap, any Hedging Credit Default Swap, the Supersenior Swap or the Total Return Swap, will be, required to deduct or withhold from any payment under any Credit Default Swap, any Hedging Credit Default Swap, the Supersenior Swap or the Total Return Swap to the Issuer for or on account of any tax for whatever reason, and the Swap Counterparty is not, or will not be, required to pay to the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding occurred, (ii) any jurisdiction imposes net income, profits or a similar tax on the Issuer or (iii) the Issuer is obligated to make a gross-up payment to the Swap Counterparty under the Master Agreement. 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 the Swap Counterparty from any payment under any Credit Default Swap, any Hedging Credit Default Swap, the Supersenior Swap or the Total Return Swap (net of any gross-up payment made by the Swap Counterparty to the Issuer) and any gross-up payment to the Swap Counterparty by the Issuer and (ii) the aggregate amount of any net income, profits or similar tax imposed on the Issuer.

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Redemption Procedures

Notice of redemption will be given by first-class mail, postage prepaid, mailed not less than (i) in the case of an Auction Call Redemption, five Business Days prior to the date scheduled for redemption, (ii) in the case of an Optional Redemption or a Tax Redemption, six Business Days prior to the date scheduled for redemption (each of (i) and (ii), the "Redemption Date") and (iii) in the case of a Mandatory Redemption, promptly following the Trustee giving or receiving notice of early termination of the Master Agreement, to each holder of Notes at such holder's address in the register maintained by the registrar under the Indenture, to the Swap Counterparty and to Standard & Poor's. In addition, the Trustee will, if and for so long as any Class of Notes to be redeemed is listed on the Irish Stock Exchange, (i) cause notice of such redemption to be delivered to the Company Announcements Office of the Irish Stock Exchange not less than seven Business Days prior to the Redemption Date and (ii) promptly notify the Irish Stock Exchange of such redemption. Notes must be surrendered at the offices designated by any Paying Agent under the Indenture in order to receive the applicable Redemption Price, unless the holder provides (i) an undertaking to surrender such Note thereafter and (ii) in the case of a holder that is not a Qualified Institutional Buyer, such security or indemnity as may be required by the Co-Issuers or the Trustee. For so long as any Preference Shares are listed on the Channel Islands Stock Exchange, the Trustee shall (i) cause the notice of any redemption to be delivered 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 Channel Islands Stock Exchange of such redemption.

The Notes may not be redeemed pursuant to an Optional Redemption or a Tax Redemption unless at least two Business Days before the scheduled Redemption Date, the Collateral Manager shall have certified to the Trustee that the Issuer has entered into a binding agreement with the Swap Counterparty to liquidate on the Swaps Liquidation Date all of the Credit Default Swaps and the Hedging Credit Default Swaps and that the amount of Available Redemption Funds on the relevant Distribution Date will be at least equal to the Total Senior Redemption Amount.

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 second Business Day prior to the scheduled Redemption Date by written notice to the Trustee, the Swap Counterparty and the holders of the Notes if on or prior to such date the Issuer fails to receive from the Collateral Manager the certificate described in the prior paragraph. Notice of any such withdrawal shall be given by the Trustee to each holder of Notes at such holder's address in the Note Register maintained by the Note Registrar under the Indenture.

Unless a Majority-in-Interest of Preference Shareholders have directed that the Preference Shares also be redeemed, the Trustee shall, to the extent practicable, only liquidate the portion of the Collateral identified by the Collateral Manager necessary to obtain proceeds equal to the Total Senior Redemption Amount in connection with an Optional Redemption, Tax Redemption or Auction Call Redemption.

Liquidation Procedures

The liquidation procedures (the "Liquidation Procedures"), which will be used in order to determine the aggregate amount which the Swap Counterparty (or an Eligible Dealer) or the Issuer would pay (or be paid) in order to terminate or replace the Credit Default Swaps and Hedging Credit Default Swaps, are summarized below:

First, with respect to an Auction Call Redemption, the Liquidation Procedures are as follows:

(i) The Trustee will, on or prior to 5:00 p.m., New York time, on the twenty-third Business Day prior to the related Swaps Liquidation Date provide a written notice to the

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Swap Counterparty (the "Swap Termination Payment Notice") requesting that the Swap Counterparty specify the Swap Termination Payment which the Swap Counterparty would pay to the Issuer or the Swap Termination Payment that the Issuer would be required to pay to the Swap Counterparty (calculated as if the Issuer were the "defaulting party" or the "affected party") if all obligations of the parties under the Credit Default Swaps and Hedging Credit Default Swaps were to terminate on the related Swaps Liquidation Date (other than Unpaid Amounts). The Swap Counterparty's calculation of the Swap Termination Payment will, with respect to the Credit Default Swaps, (x) take into account the possibility (i) that there are Unsettled Credit Events for which the Physical Settlement Date will not occur on or prior to the Swaps Liquidation Date, and (ii) that a Credit Event may occur on or prior to the Swaps Liquidation Date and (y) specify all amounts (including Unpaid Amounts) that will be due and payable by the Issuer or the Swap Counterparty on or prior to the Swaps Liquidation Date (the "Designated Unpaid Amounts");

(ii) The Swap Counterparty will, on or prior to 12:00 p.m., New York time, on the fifteenth Business Day prior to such Swaps Liquidation Date, provide (i) written notice specifying the Swap Termination Payment and the Designated Unpaid Amounts payable by the Issuer or payable by the Swap Counterparty to the Trustee or (ii) at the request of the Issuer, two separate written notices of the Swap Termination Payment for (a) the Hedged Credit Default Swaps (and the Hedging Credit Default Swaps) and (b) the unhedged Credit Default Swaps (each such notice, a "Swap Termination Notice"). In the event that the Swap Counterparty provides the Issuer with two Swap Termination Notices in accordance with clause (ii) of such definition, the Issuer may elect to follow the procedure described in clause (v) below for the unhedged Credit Default Swaps but to accept the related Swap Termination Payment specified in the Swap Termination Notice for the Hedged Credit Default Swaps (and the Hedging Credit Default Swaps) and to take that payment into account in all calculations below;

(iii) The Trustee, at the direction of the Collateral Manager, will provide written notice to the Swap Counterparty on or prior to 5:00 p.m., New York time, on the fifteenth Business Day prior to such Swaps Liquidation Date specifying that it accepts a Swap Termination Payment Notice (the "Swap Termination Payment Acceptance") or that it does not accept a Swap Termination Payment Notice (the "Swap Termination Payment Rejection"), and failure to respond unconditionally by such deadline will be deemed to be a Swap Termination Payment Rejection; *provided* that the Trustee will accept a Swap Termination Payment Notice if the Collateral Manager notifies the Trustee in writing that the Collateral Manager has determined that the Valuation Minimum Amount would be satisfied;

(iv) If a Swap Termination Payment Acceptance occurs, (x) the Issuer will enter into a binding agreement (on or prior to the sixth Business Day before the Redemption Date) with the Swap Counterparty providing for termination of the Issuer's obligations under the Master Agreement and the related payments and (y) the Swap Counterparty will pay such Swap Termination Payment and the Designated Unpaid Amounts to the Issuer or the Issuer will pay the Swap Termination Payment and the Designated Unpaid Amounts to the Swap Counterparty on the Swaps Liquidation Date and, upon such payment, all obligations of the parties under the Credit Default Swaps and Hedging Credit Default Swaps will terminate on and as of such Swaps Liquidation Date; *provided*, *however*, that from the date of delivery of the Swap Termination Notice to the Swaps Liquidation Date

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neither the Issuer nor the Swap Counterparty will pay any amounts other than Designated Unpaid Amounts in respect of the Credit Default Swaps;

(v) If a Swap Termination Payment Rejection occurs, the Swap Counterparty will attempt to obtain firm bids (by 12:00 p.m., New York time, on the fifth Business Day prior to such Swaps Liquidation Date), with respect to the Reference Portfolio in whole or (in the sole discretion of the Swap Counterparty) with respect to sub-pools of Credit Default Swaps and Hedging Credit Default Swaps (which, in the aggregate, comprise the Reference Portfolio), from at least five Eligible Dealers acceptable to the Swap Counterparty to replace the Issuer under the Credit Default Swaps (under a confirmation governed by the Standard Terms). The Swap Counterparty will deliver as soon as commercially practicable, a statement of the Designated Unpaid Amounts and each of the firm bids obtained from the Eligible Dealers to the Trustee (assuming, for this purpose, that such firm bids will take into account (x) any Credit Events for which an Event Determination Date has occurred but for which the Physical Settlement Date is not scheduled to occur on or prior to the Swaps Liquidation Date, and (y) the possibility that a Credit Event may occur on or prior to the Swaps Liquidation Date);

(vi) If the Collateral Manager determines that the highest amount which the Eligible Dealers would pay to replace the Issuer (considering the bids on the Reference Portfolio in whole and for subpools of the Credit Default Swaps and Hedging Credit Default Swaps in the Reference Portfolio or, if no Eligible Dealer agrees to pay any such amount for the Reference Portfolio in whole or for a particular subpool, the lowest amount which any such Eligible Dealer would require to be paid to replace the Issuer (considering the bids on the Reference Portfolio in whole and for subpools of the Credit Default Swaps and Hedging Credit Default Swaps), would result in an amount which, together with other Available Redemption Funds (after taking into account any payment by the Issuer to such Eligible Dealers and the Designated Unpaid Amounts), would be at least equal to the Total Senior Redemption Amount, the Issuer (x) will deliver a notice of acceptance (the "Termination Acceptance Notice") to the Swap Counterparty by 5:00 p.m., New York time on the fourth Business Day prior to the Swaps Liquidation Date, (y) will enter into a binding agreement (on or prior to the sixth Business Day before the Redemption Date) with the Swap Counterparty providing for termination of the Issuer's obligations under the Master Agreement and the related payments and (z) will make any termination payment to the related Eligible Dealer and take all other actions necessary on or prior to the Swaps Liquidation Date in order to effect such transfer and assignment of the Credit Default Swaps and Hedging Credit Default Swaps to such Eligible Dealers and, upon such payment, if any, all obligations of the Issuer under the Credit Default Swaps and Hedging Credit Default Swaps will terminate on and as of such Swaps Liquidation Date (except that the Issuer and the Swap Counterparty each will pay any Designated Unpaid Amounts on the Swaps Liquidation Date); and

(vii) In no event will the Credit Default Swaps or Hedging Credit Default Swaps be terminated or any Swap Termination Payment be due from the Issuer if notice of an Auction Call Redemption has been withdrawn by the Trustee. If such Liquidation Proceeds (after taking into account any payment by the Issuer to such Eligible Dealers and the Designated Unpaid Amounts) would not result in Available Redemption Funds (together with any Unpaid Amounts) on the proposed Redemption Date at least equal to the Total Senior Redemption Amount, an additional Valuation will be conducted prior to the following Distribution Date in accordance with the schedule set forth above.

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Second, with respect to an Optional Redemption, Tax Redemption or liquidation following an Event of Default, the Liquidation Procedures are as follows:

(i) If the redemption has been requested by the Noteholders or Preference Shareholders or if the redemption is to occur on the Accelerated Maturity Date, the Trustee will, on or prior to 12:00 p.m., New York time, on the tenth Business Day prior to the related Swaps Liquidation Date provide a written notice to the Swap Counterparty requesting that the Swap Counterparty specify the Swap Termination Payment which the Swap Counterparty would pay to the Issuer or the Swap Termination Payment that it would require that the Issuer pay to the Swap Counterparty (calculated as if the Issuer were the "defaulting party" or "affected party") if all obligations of the parties under the Credit Default Swaps and Hedging Credit Default Swaps were to terminate on the related Swaps Liquidation Date (other than Unpaid Amounts). The Swap Counterparty's calculation of the Swap Termination Payment will, (x) take into account the possibility (i) that there are Unsettled Credit Events or Deliverable Obligations for which the Physical Settlement Dates or the Deliverable Obligation Sale Dates will not occur on or prior to the Swaps Liquidation Date and (ii) that a Credit Event may occur on or prior to the Swaps Liquidation Date and (y) specify the Designated Unpaid Amounts. The Swap Counterparty will deliver such notice to the Issuer specifying such Swap Termination Payment and the Designated Unpaid Amounts on or prior to 5:00 p.m., New York time, on such fifth Business Day prior to the related Swaps Liquidation Date;

(ii) If the Optional Redemption or Tax Redemption has been requested by the Swap Counterparty, the Swap Counterparty will, on or prior to 5:00 p.m., New York time, on the fifth Business Day prior to the related Swaps Liquidation Date provide a notice to the Issuer of the Designated Unpaid Amounts payable to the Swap Counterparty (including Unpaid Amounts) or payable to the Issuer on or prior to the Distribution Date on which the Optional Redemption or Tax Redemption will occur and no other Swap Termination Payment will be due by either party; and

(iii) Whether the Swap Termination Payment is calculated pursuant to (i) or (ii) above, if any Swap Termination Payment (including the Designated Unpaid Amounts) payable to the Issuer, together with Available Redemption Funds (reduced by any Swap Termination Payment and Designated Unpaid Amounts payable by the Issuer), would be at least equal to the Total Senior Redemption Amount, the Issuer or the Swap Counterparty will pay (as applicable) such Swap Termination Payment and Designated Unpaid Amounts on the Swaps Liquidation Date and, upon such payment, all obligations of the parties under the Credit Default Swaps and the Hedging Credit Default Swaps will terminate on and as of such Swaps Liquidation Date. In no event will the Credit Default Swaps and Hedging Credit Default Swaps be terminated if notice of an Optional Redemption or Tax Redemption has been withdrawn by the Trustee or the Collateral is not liquidated pursuant to the Indenture following an Event of Default.

Third, with respect to a Mandatory Redemption, the Liquidation Procedures are as follows:

In the event that the Mandatory Redemption is a result of an "event of default" or a "termination event" under the Master Agreement where the Issuer is the defaulting party or an affected party or if a "termination event" under the Master Agreement occurs where the Swap Counterparty or the Issuer (or both) is an affected party due to a "tax event" or "illegality" (each, as defined in the Master Agreement):

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(i) By 12:00 p.m. on the fifth Business Day prior to the related Swaps Liquidation Date, the Swap Counterparty will notify the Trustee of the Swap Termination Payment which the Swap Counterparty would pay to the Issuer or the Swap Termination Payment that it would require that the Issuer pay to the Swap Counterparty and the Designated Unpaid Amounts if all obligations of the parties under the Credit Default Swaps and the Hedging Credit Default Swaps were to terminate on the related Swaps Liquidation Date (which amount shall exclude payments with respect to the Credit Default Swaps and Hedging Credit Default Swaps that are subject to Unsettled Credit Events for which an amount equal to the Holdback Amount shall be held in the UA Collateral Subaccount until the Notice Delivery Period Expiration Redemption Date and each date on which a Physical Settlement Amount is paid to the Swap Counterparty); and

(ii) The Issuer or the Swap Counterparty will pay (as applicable) such Swap Termination Payment and any Designated Unpaid Amounts on the Swaps Liquidation Date and, upon such payment, all obligations of the parties under the Credit Default Swaps and the Hedging Credit Default Swaps (other than Credit Default Swaps and Hedging Credit Default Swaps subject to an Unsettled Credit Event for which a Holdback Amount is established) will terminate on and as of such Swaps Liquidation Date.

In the event that the Mandatory Redemption is a result of an "event of default" or a "termination event" (other than due to a "tax event" or "illegality") where the Swap Counterparty is the sole defaulting party or sole affected party, the amount payable on the Swaps Liquidation Date will be equal to (A) the Unpaid Amounts owing to the Issuer less (B) the Unpaid Amounts owing to the Swap Counterparty (and no other payments will be payable by either party). If that amount is a negative number, the Issuer will pay the absolute value of that amount to the Swap Counterparty in accordance with the Priority of Payments and if it is a positive number, the Swap Counterparty will pay it to the Issuer.

Any Swap Termination Payment payable to the Issuer or any payment by an Eligible Dealer to the Issuer pursuant to the Liquidation Procedures is referred to herein as the "Liquidation Proceeds."

The Issuer and the Swap Counterparty may modify the procedures described above on prior written notice to the Trustee, without the consent of the Noteholders or the Preference Shareholders.

Redemption Price

The "Redemption Price" payable in connection with (i) any Auction Call Redemption, Optional Redemption or Tax Redemption of any Note will be an amount (determined without duplication) equal to the Aggregate Outstanding Amount of such Note being redeemed plus accrued interest thereon (including Defaulted Interest and accrued, unpaid and uncapitalized interest on Defaulted Interest, if any) and (ii) a Mandatory Redemption, an Accelerated Maturity Date or Stated Maturity or any Redemption Date following any of the foregoing, will be the amount of the Principal Proceeds payable in respect of the principal amount of any Note pursuant to the Priority of Payments.

Cancellation

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

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Payments

Payments in respect of principal of and interest on any Note will be made to the person in whose name such Note is registered fifteen days prior to the applicable Distribution Date (the "Record Date"). Payments on each Note will be payable by wire transfer in immediately available funds to a Dollar account maintained by the holder thereof in accordance with wire transfer instructions received by any paying agent appointed under the Indenture (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 on any Note and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid to the Issuer upon request by the Issuer therefor, and the holder of such Note shall thereafter, as an unsecured general creditor, look to the Issuer or the Co-Issuer for payment of such amounts and all liability of the Trustee or such Paying Agent with respect to such trust money shall thereupon cease. The Trustee or the Paying Agent, before being required to make any such release of payment may, at the request of the Issuer, adopt and employ, at the expense of the Co-Issuers, any reasonable means of notification of such release of payment, including mailing notice of such release to holders whose Notes have been called but have not been surrendered for redemption or whose right to or interest in monies due and payable but not claimed is determinable from the records of any Paying Agent, at the last address of record of each such holder.

If any withholding tax is imposed on the Issuer's payment under the Notes to any Noteholder, such tax shall reduce the amount of such payment otherwise distributable to such Noteholder. The Trustee is authorized and directed under the Indenture to retain from amounts otherwise distributable to any Noteholder sufficient funds for the payment of any tax that is legally owed by the Issuer (but such authorization will not prevent the Trustee from contesting any such tax in appropriate proceedings and withholding payment of such tax, if permitted by law, pending the outcome of such proceedings). The amount of any withholding tax imposed with respect to any Noteholder will be treated as cash distributed to such Noteholder at the time it is withheld by the Trustee and remitted to the appropriate taxing authority. The Trustee will determine in its sole discretion whether to withhold tax with respect to a distribution in accordance with the Indenture. 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 Credit Default Swaps and the Hedging Credit Default Swaps. Amounts withheld pursuant to applicable tax laws shall be considered as having been paid by the Issuer as provided in the Indenture. In the event that tax must be withheld or deducted from payments of principal or interest, neither Co-Issuer shall be obligated to make any additional payments to the holders of any Notes on account of such withholding or deduction.

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Priority of Payments

With respect to any Distribution Date, collections received on the Collateral during each Due Period will be divided into Interest Proceeds and Principal Proceeds and applied in the priority set forth below under "—Interest Proceeds" and "—Principal Proceeds," respectively (collectively, the "Priority of Payments"). "Due Period" means, with respect to any Distribution Date, the period from and including the 15th day of the month in which the prior Distribution Date occurred (or the Closing Date in the case of the Due Period relating to the first Distribution Date) to and excluding the 15th day of the month in which such Distribution Date occurs, except that in the case of the Due Period that is applicable to the Distribution Date relating to the final Distribution Date such Due Period shall end on (and include) the day preceding the final Distribution Date. Amounts that would otherwise have been payable in respect of a Credit Default Swap or a Hedging Credit Default Swap on the last day of a Due Period but for such day not being a designated business day in the Credit Default Swap or Hedging Credit Default Swap or but for the fifth Business Day preceding such day not being a designated business day in the Underlying Instruments for the related Reference Obligation shall be considered included in collections received during such Due Period. For any Distribution Date after the Initial Redemption Date, the Due Period shall be the period from and including the immediately preceding Distribution Date to but excluding such Distribution Date.

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

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

(2) (a) *first*, to the payment to the Trustee of the accrued and unpaid Trustee Fee, (b) *second*, to the payment to the Administrator of the accrued and unpaid fees under the Administration Agreement, (c) *third*, to the payment to the Trustee of accrued and unpaid Trustee Expenses (other than amounts payable pursuant to indemnities) of the Trustee owing to it under the Indenture (and, if an Event of Default has occurred and is continuing under the Indenture, payment to the Trustee of other 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) not included in clause (c), (f) *sixth*, to the payment of accrued and unpaid Other Administrative Expenses then due and payable; *provided* that all payments made pursuant to subclauses (b) through (f) of this clause (2) do not exceed on such Distribution Date U.S.$150,000 for such Due Period, and (g) *seventh*, if the balance of all Eligible Investments and cash in the Expense Account on the related Determination Date is less than U.S.$150,000, for deposit to the Expense Account of an amount equal to the lesser of (x) the amount by which U.S.$150,000 exceeds the aggregate amount of payments made under subclauses (b) through (f) of this clause (2) on such Distribution Date and (y) such amount as would have caused the balance of all Eligible Investments and cash in the Expense Account immediately after such deposit to equal U.S.$150,000;

(3) to the payment, *first*, to the Swap Counterparty under the Supersenior Swap of the accrued and unpaid Structuring Fee and *second*, to the Collateral Manager of the accrued and unpaid Senior Collateral Management Fee (and interest thereon);

(4) to the payment to the Swap Counterparty of any Swap Termination Payment;

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(5) to the payment to the Swap Counterparty of the Supersenior CDS Premium and the Supersenior Funded Amount Interest owed by the Issuer to the Swap Counterparty under the Supersenior Swap;

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

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

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

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

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

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

(12) to the payment of accrued and unpaid Trustee Expenses and 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);

(13) to the payment to the Collateral Manager of accrued and unpaid Subordinated Collateral Management Fee (and interest thereon); and

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

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

(1) to the payment of the amounts referred to in clauses (1) to (4) of the Interest Proceeds Waterfall in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(2) to the payment to the Swap Counterparty of the Supersenior Funded Amount owed by the Issuer to the Swap Counterparty under the Supersenior Swap;

(3) to the payment of the amounts referred to in clauses (5) 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;

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(4) *first*, to the payment of principal of the Class A Notes until the principal of the Class A Notes is paid in full and, *second*, to the payment of principal of the Class B Notes until the principal of the Class B Notes is paid in full;

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

(6) to the payment of principal of the Class C Notes until the Class C Notes have been paid in full;

(7) to the payment of the Interest Distribution Amount with respect to the Class D Notes, but only to the extent not paid in full pursuant to clause (9) of the Interest Proceeds Waterfall;

(8) to the payment of principal of the Class D Notes until the Class D Notes have been paid in full;

(9) to the payment of amounts referred to in clauses (12) and (13) of the Interest Proceeds Waterfall in the same order of priority specified therein, but only to the extent not paid thereunder; and

(10) 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.

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 the Interest Proceeds Waterfall or the Principal Proceeds Waterfall will be released from the lien of the Indenture.

Payments after the Initial Redemption Date. On the Initial Redemption Date (if it is the Stated Maturity or a Mandatory Redemption Date), the Notice Delivery Period Expiration Redemption Date and each Delivery Date thereafter on which there are any Unsettled Credit Events, the Holdback Amount related to such Unsettled Credit Events shall be retained in the UA Collateral Subaccount. The Swap Counterparty shall provide to the Trustee, on or prior to any such Distribution Date, a statement showing the amounts to be retained in the UA Collateral Subaccount and the Credit Events to which such amounts relate.

Subsequent to the Initial Redemption Date, on the Notice Delivery Period Expiration Date, the Issuer will liquidate Underlying Assets with a principal amount or Certificate Balance equal to the Holdback Release Amount, and the Trustee will distribute the proceeds in accordance with the Priority of Payments. On each Delivery Date thereafter, the Issuer will either (x) if the Total Return Swap is not in effect, liquidate Underlying Assets with proceeds equal to the Physical Settlement Amount or (y) deliver to the Swap Counterparty (without any payment by the Swap Counterparty therefor) a principal amount

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or Certificate Balance of Underlying Assets equal to the Physical Settlement Amount. The Trustee will deposit into the DO Collateral Subaccount the Deliverable Obligations delivered by the Swap Counterparty to the Issuer. On and after the Initial Redemption Date, any Deliverable Obligation Sale Proceeds realized upon the sale of the Deliverable Obligations after payment of the Supersenior Funded Amount will be distributed in accordance with the Priority of Payments on the first Business Day after the applicable Deliverable Obligation Sale Date.

In the event that on and after the Initial Redemption Date any Additional Fixed Amount is paid to the Issuer, on the next Business Day (which shall be treated as a Distribution Date under the Indenture) after the Additional Fixed Amount Payment Date after payment of the Supersenior Funded Amount, the Trustee will distribute such amount in accordance with the Priority of Payments.

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 on the Closing Date with the Common Depositary and registered in the name of the Common Depositary (or its nominee). By acquisition of a beneficial interest in a Regulation S Global Note, any purchaser thereof will be deemed to represent that it is not a U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only to a person that is not a U.S. Person in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Note. Beneficial interests in each Regulation S Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and, to the extent applicable, the Common Depositary.

(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, The Depository Trust Company ("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, LaSalle 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

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"Note Register"). LaSalle 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.$500,000 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 and Class D Notes may fail to be in an amount which is an integral multiple of U.S.$1,000 due to the addition to the principal amount thereof of Class C Deferred Interest Amount or Class D Deferred Interest Amount, as applicable.

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 (i) in the case of the Restricted Notes, members of, or participants in DTC as well as any other persons on whose behalf participants may act and (ii) in the case of the Regulation S Notes, persons (including any other persons on whose behalf such persons may act) holding their interests in the Regulation S Notes through the Common Depositary, 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"), participants in DTC and participants in Euroclear or Clearstream are referred to herein as "Participants."

(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. 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. 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 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

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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) the applicable depository notifies the Issuer that it is unwilling or unable to continue as depositary for such Note or (b) in the case of the Restricted Notes, DTC ceases to be a "Clearing Agency" registered under the Securities Exchange Act of 1934, as amended (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 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, (b) to a Qualified Purchaser and (c) in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and from the transferee in the form provided for in the Indenture. Exchanges or transfers by a holder of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a beneficial interest in a Restricted Global Note will be made no later than 60 days after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred only in accordance with the Applicable Procedures, and, if applicable, upon receipt by the Note Registrar of a written certification from the transferor in the form provided in the Indenture.

An owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification; *provided* that (1) such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected through Euroclear or Clearstream, Luxembourg in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures and (2) any transfer not effected in an offshore transaction in accordance with Rule 904 of Regulation S may be made only upon provision to the Note Registrar of written certification from the transferee and transferor in the form provided for in the Indenture.

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The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner of (A) a Regulation S Note (or any interest therein) is a U.S. Person or (B) a Restricted Note is not a Qualified Institutional Buyer (or, in the case of an Original Purchaser of such Restricted Note, an Accredited Investor) and also a Qualified Purchaser, the Co-Issuers shall require, by notice to such holder, that such holder sell all of its right, title and interest to such Note (or interest therein) to a Person that is (1) not a U.S. Person (in the case of a person acquiring its interest through a Regulation S Global Note) or (2) in the case of a person acquiring its interest through a Restricted Note, both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee and approved by the Collateral Manager 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 acquiring its interest through a Regulation S Note) or (B) in the case of a person acquiring its interest through a Restricted Note, is a (a) Qualified Institutional Buyer and (b) a Qualified Purchaser and (ii) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner and such Note shall be deemed not to be outstanding for the purpose of any vote or consent of Noteholders.

(ii) Transfers by a holder of a beneficial interest in a Restricted Global Note to a transferee who takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Note will be made only in accordance with the Applicable Procedures and upon receipt by the Note Registrar of written certification from the transferor in the form provided in the Indenture to the effect that such transfer is being made in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S. Exchanges or transfers by a holder of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a beneficial interest in a Regulation S Global Note will be made no later than 60 days after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred only in accordance with the Applicable Procedures, and, if applicable, upon receipt by the Note Registrar of a written certification from the transferor in the form provided in the Indenture.

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

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

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

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the transferor after giving effect to such transfer. Definitive Notes issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the applicable Transfer Agent.

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

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

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

(viii) Subject to compliance with the transfer restrictions applicable to the Notes described above and under "Transfer Restrictions," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg participants, on the other, will be effected in DTC in accordance with DTC rules and by the Common Depositary on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, 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 the Common Depositary to take action to effect final settlement on its behalf by delivering or receiving interests in a Regulation S Global Note and making or receiving payment in accordance with its normal procedures for same-day funds settlement. Clearstream, Luxembourg participants and Euroclear participants may not deliver instructions directly to the Common Depositary.

(ix) Because of time zone differences, cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in a Regulation S Global Note by or through a Euroclear or Clearstream, Luxembourg participant to a DTC participant acquiring an interest in a Restricted Global Note 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 with DTC.

(x) DTC has advised the Co-Issuers that it will take any action permitted to be taken by a holder of Restricted Notes (including, without limitation, the presentation of Restricted Notes for exchange as described above) only at the direction of one or more Participants to whose account with the DTC interests in the Restricted 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 Restricted Global Notes for Definitive Notes, legended as appropriate, which it will distribute to its Participants. Euroclear and Clearstream, Luxembourg have each advised the Co-Issuers that it will take any action permitted to be taken by a holder of Regulation S Global 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 Euroclear or Clearstream, Luxembourg interests in the Regulation S Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Regulation S Global 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, Euroclear and Clearstream, Luxembourg will exchange the Regulation S Global Notes for Definitive Notes, legended as appropriate, which it will distribute to its Participants.

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

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

(xiii) The Issuer will, based on the advice of counsel to the Issuer or the Collateral Manager, 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 (other than interest payable on a Distribution Date after the Initial Redemption Date) (a) on any Class A Note when the same becomes due and payable, (b) on any Class B Note when the same becomes due and payable, (c) if there are no Class A Notes or Class B Notes outstanding, on any Class C Note when the same becomes due and payable, or (d) if there are no Class A Notes, Class B Notes or Class C Notes outstanding, on any Class D Note when the same becomes due and payable, in each case which default continues for a period of three Business Days (or, in the case of a default in payment resulting solely from an administrative error or omission by

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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);

(ii) a default in the payment of principal of any Note when the same becomes due and payable at its Stated Maturity (or, if the Holdback Amount is greater than zero or the Net Unreimbursed Floating Amount is greater than zero or there are Deliverable Obligations credited to the DO Collateral Subaccount on the Stated Maturity, on the Extended Maturity Date) and, in the case of a default in payment resulting solely from an administrative error or omission by the Trustee, the Administrator, a Paying Agent (other than the Preference Share Paying Agent) or 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 Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, such default continues for a period of five Business 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 the Swap Counterparty (in its capacity as swap counterparty to the Supersenior Swap);

(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 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 the Swap Counterparty, in each case specifying such default or breach and requiring it to be remedied and stating that it is a "notice of default" under the Indenture;

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

(vii) one or more final judgments being rendered against either of the Co-Issuers that exceed, in the aggregate, U.S.$1,000,000 (or such lesser amount as Standard & Poor's may specify) and which remain unstayed, undischarged and unsatisfied for 30 days after such judgment(s) becomes nonappealable, unless adequate funds have been reserved or set aside for the payment thereof.

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

If an Event of Default occurs and is continuing (other than an Event of Default described in clause (vi) under "Events of Default" above), the Trustee (with the consent of the holders of a majority in Aggregate Outstanding Amount of the Controlling Class) may, and at the direction of the holders of a majority in Aggregate Outstanding Amount of the Controlling Class will, (A) declare the principal of and accrued and unpaid interest on all of the Notes to be immediately due and payable and (B) terminate the Reinvestment Period. If an Event of Default described in clause (vi) above under "Events of Default" occurs, such an acceleration will occur automatically and without any further action and the Reinvestment Period will terminate. Notwithstanding the foregoing, if the sole Event of Default is an Event of Default described in clause (i) or clause (ii) above under "Events of Default" with respect to a default in the payment of any principal of or interest on the Notes of a Class other than the Controlling Class, neither the Trustee nor the holders of such non-Controlling Class will have the right to declare such principal and other amounts to be immediately due and payable. Any declaration of acceleration may under certain circumstances be rescinded by the holders of a majority in Aggregate Outstanding Amount of Notes of the Controlling Class. The "Controlling Class" means the Class A Notes or, if there are no Class A 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. "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 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 liquidation of the Collateral (including any Swap Termination Payment that would be payable to the Issuer, determined in accordance with the Liquidation Procedures) would be sufficient to discharge in full the amounts then due and unpaid on the Notes for principal and interest (including interest on the Class C Deferred Interest Amount and the Class D Deferred Interest Amount), any Unpaid Amounts owing to the Swap Counterparty and any Swap Termination Payment owing to the Swap Counterparty (determined in accordance with the Liquidation Procedures) under the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap and due and unpaid Trustee Fees and Administrative Expenses and the Swap Counterparty (in its capacity as counterparty under the Supersenior Swap) agrees in writing with such determination; or

(B) unless (x) the holders of at least $66^2/_3\%$ in Aggregate Outstanding Amount of each Class of Notes voting as a separate Class and the Swap Counterparty (in its capacity as counterparty pursuant to the Supersenior Swap) direct the liquidation of the Collateral or (y) if the Trustee determines that upon liquidation of all of the Collateral pursuant to clause (A) and the distribution of the proceeds of all of the Collateral in accordance with the Priority of Payments, none of such proceeds would be applied to pay interest on or principal of the Notes, the Swap Counterparty (in its capacity as counterparty pursuant to the Supersenior Swap), subject to the provisions of the Indenture, directs the liquidation of the Collateral.

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If either of the conditions above to the liquidation of the Collateral is satisfied, the Trustee will liquidate the Collateral and terminate the Total Return Swap, the Supersenior Swap, the Credit Default Swaps and the Hedging Credit Default Swaps following an Event of Default and, on the second Business Day (the "Accelerated Maturity Date") following the Business Day (which shall be the Determination Date for such Accelerated Maturity Date) on which the Trustee notifies the Issuer, the Swap Counterparty, the Collateral Manager and each Rating Agency that such liquidation is completed, apply the proceeds of such liquidation in accordance with the Priority of Payments. The Accelerated Maturity Date will be treated as a Distribution Date, and distributions on such date will be made in accordance with the Priority of Payments. Notwithstanding the foregoing, in no event shall any application of the proceeds of any sale or liquidation of the Collateral following an Event of Default occur prior to the earlier of (x) six Business Days after the date on which either of the conditions set forth in clauses (A) and (B) above is satisfied and (y) the date on which the Swap Termination Payment (if any) payable by the Issuer to the Swap Counterparty becomes due and payable.

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

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

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

The holders of a majority in Aggregate Outstanding Amount of Notes of the Controlling Class, together with the Swap Counterparty, may, prior to the time a judgment or decree for the payment of money due has been obtained by the Trustee, waive any past default on behalf of the holders of all the Notes and its consequences (including rescinding the acceleration of the Notes), except a default in the payment of the principal of any Note or in the payment of interest (including any Defaulted Interest or interest on Defaulted Interest) on the Notes, in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of the holder of each outstanding Note affected thereby, or arising as a result of an Event of Default described in clause (vi) above under "Events of Default."

No holder of a Note will have the right to institute any proceeding with respect to the Indenture unless (i) such holder previously has given to the Trustee written notice of an Event of Default, (ii) except in certain cases of a default in the payment of principal or interest, the holders of at least 25% in Aggregate Outstanding Amount of the Notes of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such holders have offered the

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Trustee indemnity satisfactory to it, (iii) the Trustee has for 30 days after its receipt of such notice, request and offer of indemnity failed to institute any such proceeding and (iv) no direction inconsistent with such written request has been given to the Trustee during such 30 day period by the holders of a majority in Aggregate Outstanding Amount of the Notes of the Controlling Class.

If the Trustee shall receive conflicting or inconsistent requests from two or more groups of holders of the Notes of the Controlling Class, each representing less than a majority of the Controlling Class, the Trustee shall follow the instructions of the group representing the higher percentage of interest in the Controlling Class.

Voting

In determining whether the holders of the requisite percentage of Notes have given any direction, notice, consent or waiver, (i) Notes owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding, (ii) in relation to any assignment or termination of any of the express rights of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any right to remove the Collateral Manager or terminate the Collateral Management Agreement), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager, Notes owned by the Collateral Manager or any of its affiliates shall be disregarded and deemed not to be outstanding and (iii) in relation to any assignment or termination of the Master Agreement, any Credit Default Swap, any Hedging Credit Default Swap, the Total Return Swap or the Supersenior Swap, or any amendment or other modification of the Master Agreement, any Credit Default Swap, any Hedging Credit Default Swap, the Total Return Swap or the Supersenior Swap, Notes owned by the Swap Counterparty or any of its affiliates shall be disregarded and deemed not to be outstanding. The Collateral Manager and its affiliates and the Swap Counterparty and its affiliates will be entitled to vote Notes owned or controlled by them with respect to all other matters.

Notices

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

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) the Swap Counterparty, 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 Swap Counterparty, 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, within 10 days following notice by the Trustee to such parties of the proposed supplemental indenture, the Trustee and the Issuer are entitled to receive and conclusively rely upon an officer's certificate of the Collateral Manager 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

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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. The Issuer may not enter into any such supplemental indenture without the consent of the Swap Counterparty (in its capacity as counterparty under the Supersenior Swap).

Notwithstanding the foregoing, the Trustee may not enter into any such supplemental indenture (other than to conform the Indenture to the Offering Circular) without the consent of each holder of each outstanding Note of each Class adversely affected thereby and each Preference Shareholder adversely affected thereby (which consent shall be evidenced by an officer's certificate of the Issuer certifying that such consent has been obtained, on which the Trustee is entitled to conclusively rely) if such supplemental indenture (i) changes the Stated Maturity or the Extended Maturity Date of the Notes or the due date of any installment of interest on any Note, reduces the principal amount thereof or the rate of interest thereon, or the redemption price with respect thereto, changes the earliest date on which the Issuer may optionally redeem any Note, changes the Priority of Payments to affect the application of proceeds of any Collateral to the payment of principal of or interest on the Notes or distributions on the Preference Shares, changes any place where, or the coin or currency in which, any Note or the principal thereof or interest thereon is payable, or impairs the right to institute suit for the enforcement of any such payment on or after the Stated Maturity or the Extended Maturity Date thereof (or, in the case of redemption, on or after the applicable redemption date) or changes the date on which any distribution in respect of the Preference Shares is payable, (ii) reduces the percentage in Aggregate Outstanding Amount of holders of Notes of each Class or the percentage of holders of Preference Shares (as applicable) whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder or their consequences or to request that the Trustee preserve the Collateral pledged under the Indenture or rescind the Trustee's election to preserve the Collateral or to sell or liquidate the Collateral pursuant to the Indenture, (iii) materially impairs or materially adversely affects the Collateral pledged under the Indenture except as otherwise permitted thereby, (iv) permits the creation of any lien ranking prior to or on a parity with the lien created by the Indenture with respect to any part of the Collateral or terminates such lien on any property at any time subject thereto (other than in connection with the sale or exchange thereof in accordance with, or as otherwise permitted by, the Indenture) or deprives the holder of any Note 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 provisions of the Indenture, (vii) increases the permitted minimum denominations of any Class of Notes, (viii) modifies any of the provisions of the Indenture in such a manner as to affect directly the calculation of the amount of any payment of interest on or principal of any Note or the right of the holders of Notes to the benefit of any provisions for the redemption of such Notes contained therein or to adversely affect the rights of the Preference Shareholders to the benefit of any provisions for the redemption of the Preference Shares contained therein, or (ix) amends the "non-petition" or "limited recourse" provisions of the Indenture or the Notes.

The Co-Issuers and the Trustee may also enter into supplemental indentures without obtaining the consent of holders of any Notes, the Preference Shareholders or the Swap Counterparty in order to (i) evidence the succession of any person to the Issuer or the Co-Issuer and the assumption by such

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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, any and all actions necessary or desirable as a result of changes in law or regulations) or to subject to the lien created by the Indenture any additional property, (vi) modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or in accordance with the USA PATRIOT Act, the Proceeds of Criminal Conduct Law (2004 Revision) (enacted in the Cayman Islands), the Money Laundering Regulations (2003 Revision) (enacted in the Cayman Islands) and any other similar applicable laws or regulations or to enable the Co-Issuers to rely upon any less restrictive exemption from registration under the Securities Act, the Investment Company Act or other applicable law or to remove restrictions on resale and transfer to the extent not required thereunder, (vii) correct any inconsistency, defect or ambiguity in the Indenture or correct, modify or supplement any provision which is inconsistent with any rating agency methodology, (viii) obtain ratings on one or more Classes of the Notes from any rating agency, (ix) accommodate the issuance of any Class of Notes or Preference Shares to be held through the facilities of DTC, Euroclear or Clearstream, Luxembourg or otherwise or the listing or the delisting of the Notes or the Preference Shares on any exchange or the issuance of additional Preference Shares, (x) make non-material administrative changes as the Co-Issuers deem appropriate, (xi) avoid imposition of tax on the net income of the Issuer or the Co-Issuer or of withholding tax on any payment to the Issuer or the Co-Issuer or to avoid the Issuer or the Co-Issuer being required to register as an investment company under the Investment Company Act or avoid the application of the German Investment Tax Act to the Issuer or to any of the Offered Securities, (xii) accommodate the issuance of any Class of Notes as Definitive Notes, (xiii) 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) to correct any manifest error in the Indenture, (xvii) enter into any amendment, modification or waiver if the Issuer determines that such amendment, modification or waiver would not, upon or after becoming effective, materially adversely affect the rights or interest of holders of any Class of Notes or holders of the Preference Shares, (xviii) modify any of the Eligibility Criteria, the Trading Criteria or the Hedging Credit Default Swap Tests (with the consent of the Swap Counterparty) or (xix) modify any provision of the Indenture in order to provide for the replacement in part or in whole, of the Total Return Swap with a TRS Replacement Agreement; *provided* that, in each such case (other than clause (xiv) or (xvi)), such supplemental indenture would not materially and adversely affect any Class of Notes, the Preference Shareholders or the Swap Counterparty. The Trustee shall not enter into any such supplemental indenture if, with respect to such supplemental indenture, the Rating Condition would not be satisfied; *provided* that the Trustee may, with the consent of the holders of 100% of the Aggregate Outstanding Amount of Notes of each affected Class, enter into any such supplemental indenture notwithstanding that the Rating Condition with respect to Standard & Poor's would not be satisfied with respect to such supplemental indenture; *provided further* that notice of such consent is provided to the Rating Agencies and the Collateral Manager.

The Trustee and the Issuer may receive and conclusively rely upon an officer's certificate of the Issuer or the Collateral Manager 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 may not enter into any supplemental

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indenture described in the immediately preceding paragraph without the consent of the Swap Counterparty (in its capacity as counterparty pursuant to the Supersenior Swap), which consent may not be unreasonably withheld or delayed. 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 material 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. Moreover, the Trustee may not enter into any supplemental indenture described in clause (vi) or (vii) of the first sentence in the preceding paragraph without the written consent of the Collateral Manager.

Notwithstanding anything to the contrary in this section, if either Moody's or Standard & Poor's changes the method of calculating the Moody's CDOROM Test Condition, the Standard & Poor's CDO Monitor Test, the Standard & Poor's Minimum Recovery Rate Test, the Weighted Average Spread Test or the Weighted Average Life Test, as applicable (a "Rating Agency Methodology 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) if the Rating Condition is satisfied, in the case of the Standard & Poor's CDO Monitor Test, the Standard & Poor's Minimum Recovery Rate Test, the Weighted Average Spread Test or the Weighted Average Life Test, with respect to Standard & Poor's and, in the case of the Moody's CDOROM Test Condition, with respect to Moody's, 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.

Promptly after the execution by the Co-Issuers and the Trustee of any supplemental indenture, the Trustee, at the expense of the Co-Issuers, will mail to the holders of the Notes, the Collateral Manager, the Preference Share Paying Agent (for forwarding to the Preference Shareholders), the Swap Counterparty, the Paying Agent in Ireland (if and for so long as any Class of Notes is listed on the Irish Stock Exchange), the Channel Islands Stock Exchange (so long as any Preference Shares are listed thereon) and each Rating Agency (so long as any Class of Notes is outstanding) a copy (or a summary) thereof.

Modification of Certain Other Documents

Prior to entering into any amendment to the Collateral Management Agreement, the Administration Agreement or the Master Agreement (or any transaction thereunder), the Issuer is required by the Indenture to obtain the written confirmation of Standard & Poor's that the entry by the Issuer into such amendment satisfies the Rating Condition with respect to Standard & Poor's. Prior to entering into any waiver in respect of any of the foregoing agreements, the Issuer is required to provide each Rating Agency, the Collateral Manager, the Swap 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." The Issuer will not permit any amendment to the Master Agreement, the Supersenior Swap, the Total Return Swap, the Credit Default Swaps, the Hedging Credit Default Swaps or the Preference Share Documents that alters the duties of the Collateral Manager to become effective unless the Collateral Manager has been given prior written notice of such amendment and has consented thereto in writing.

Benefit

The Swap Counterparty, the Collateral Manager and each Preference Shareholder will be an express third party beneficiary of the Indenture.

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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.

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 Preference Share Paying Agency Agreement, the Collateral Administration Agreement, the Administration Agreement, the Total Return Swap, the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Collateral Management Agreement.

Trustee

LaSalle Bank National Association will be the Trustee under the Indenture. The Co-Issuers and their respective affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee is solely the obligation of the Co-Issuers. The Trustee and its affiliates may receive compensation in connection with the investment of trust assets in certain Eligible Investments as provided in the Indenture. Eligible Investments may include investments for which the Trustee and/or its affiliates provide services. The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. Pursuant to the Indenture, the Issuer has granted to the Trustee a lien senior to that of the Noteholders to secure payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer under the Indenture (subject to the dollar limitations set forth in the Priority of Payments with respect to any Distribution Date), which lien the Trustee is entitled to exercise only under certain circumstances. In the Indenture, the Trustee will agree not to cause or join in the filing of a petition for winding up or a petition in bankruptcy against the Co-Issuers for nonpayment to the Trustee of amounts payable thereunder until at least one year and one day, or if longer, the applicable preference period (plus one day) then in effect, after the payment in full of all of the Notes; *provided, however*, it is entitled to file proofs of claim in connection with such proceeding. Pursuant to the Indenture, the Trustee may resign at any time by providing 30 days' notice and the Trustee may be removed at any time by holders of at least $66^{2}/_{3}\%$ of the Aggregate Outstanding Amount of the Notes of each Class (with the consent of the Swap Counterparty) or at any time 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 (with the consent of the Swap Counterparty). 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

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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.

Tax Characterization

The Issuer intends to treat the Notes as debt instruments of the Issuer for U.S. Federal, state and local income tax purposes, unless and until an applicable taxing authority requires otherwise. The Indenture will provide that each holder, by accepting a Note, agrees to such treatment and not to take any action inconsistent with such treatment. See "Income Tax Considerations."

Governing Law

The Notes, the Indenture, the Collateral Management Agreement, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement, the Master Agreement, the Total Return Swap, the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Purchase Agreement will be governed by, and construed in accordance with, the laws of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by, and construed in accordance with, the laws of the Cayman Islands.

DESCRIPTION OF THE PREFERENCE SHARES

The Preference Shares will be issued pursuant to the Issuer Charter and the Resolutions and will be subscribed to in accordance with the terms of the Investor Application Forms for Preference Shares. The following summary describes certain provisions of the Preference Shares, the Issuer Charter, the Preference Share Paying Agency Agreement and the Investor Application Forms. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Issuer Charter, the Preference Share Paying Agency Agreement and the Investor Application Forms for Preference Shares. After the Closing Date, copies of the Issuer Charter, the Preference Share Paying Agency Agreement and the form of Investor Application Form for Preference Shares may be obtained by prospective investors upon request in writing to the Preference Share Paying Agent at 135 South LaSalle Street, Suite 1511, Chicago, Illinois 60603, Attention: CDO Trust Services Group—Khaleej II CDO, Ltd.

Status

The Issuer will, prior to the Closing Date, be authorized to issue 40,500 Preference Shares, par value U.S.$0.01 per share, at an issue price of U.S.$1,000 per share, having a liquidation preference of U.S.$1,000 per share, all of which will be issued on the Closing Date. The Preference Shares are participating shares in the capital of the Issuer and will rank *pari passu* with respect to distributions.

Distributions

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

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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); *provided* that the Issuer will be solvent immediately following the date of such payment.

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

Upon liquidation of the Issuer, distributions of property other than cash may be made under certain circumstances specified in the Issuer Charter. The amount of such non-cash distributions will be 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."

Optional Redemption of the Preference Shares

On any Distribution Date on or after the Distribution Date on which the Notes have been paid in full, the Preference Shares may be redeemed (in whole but not in part) at the direction of a Majority-in-Interest of Preference Shareholders given not less than 15 Business Days prior to such Distribution Date at a redemption price per share equal to (x) the proceeds from the liquidation of the assets of the Issuer minus the costs and expenses of such liquidation minus the amount required to establish adequate reserves to meet all liabilities and/or obligations (including contingent, unliquidated liabilities or obligations) of the Issuer minus U.S.$500 (consisting of the nominal amount paid up on the ordinary shares and 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 CISX, and so long as the rules of such exchange so require, notices to the holders of Preference Shares will also be given by delivery to the CISX.

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Voting Rights

Set forth below is a summary of certain matters with respect to which Preference Shareholders are entitled to vote. This summary is not meant to be an exhaustive list, and, subject to covenants made by each Preference Shareholder in the Investor Application Forms for Preference Shares (in the case of Original Purchasers of the Preference Shares) and in the transfer certificates (in the case of transferees of the Preference Shares), the Indenture, the Preference Share Documents, the Collateral Management Agreement and Cayman Islands law afford Preference Shareholders of the Issuer the right to vote on matters in addition to those mentioned below.

Redemption of the Preference Shares: On any Distribution Date on or after the Distribution Date on which the Notes have been paid in full, the Preference Shares may be redeemed (in whole but 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 and 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 a supplemental indenture without the consent of the Preference Shareholders under the circumstances described under "Description of the Notes—Modification of the Indenture."

Preference Share Paying Agency Agreement: The Issuer is not permitted to consent to any amendment of the Preference Share Paying Agency Agreement without the consent of Preference Shareholders whose Voting Percentages equal 100% of the Voting Percentages of all Preference Shareholders if such amendment would (i) reduce in any manner the amount of, or delay the timing of, or change the allocation of, the payment of any dividends or final distributions on the Preference Shares, (ii) reduce the Voting Percentage of Preference Shareholders required to consent to any amendment to the Preference Share Paying Agency Agreement that requires the consent of 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 two years and two days after the Extended Maturity Date, 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 (other than Excepted Property), upon the Preference Shareholders' determination to dissolve the Issuer and (iii) at any time after the Notes are paid in full, upon the Preference Shareholders' determination to dissolve the Issuer. The directors of the Issuer currently intend, in the event that the Preference Shares are not redeemed at the option of a Majority-in-Interest of Preference Shareholders following the repayment in full of the Notes, to liquidate all of the Issuer's remaining investments in an orderly manner and distribute the proceeds of such liquidation to the Preference Shareholders. However, there can be no assurance that the Notes will be repaid before their Stated Maturity. See "Maturity, Prepayment and Yield Considerations" and "Risk Factors—Average Life and Prepayment Considerations."

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

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(1) *first*, to pay the costs and expenses of the winding up, liquidation and termination of the Issuer;

(2) *second*, to creditors of the Issuer, in the order of priority provided by law;

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

(4) *fourth*, subject to a deduction from those Preference Shares in respect of which there are monies due, to the Preference Shareholders, a liquidation preference amount equal to U.S.$1,000 in respect of each Preference Share held by each of them, *provided* that if the assets available for distribution to Preference Shareholders are not sufficient to pay to such holders U.S.$1,000 in respect of each Preference Share, the available assets shall be distributed to the Preference Shareholders *pro rata* according to the number of Preference Shares held by each of them;

(5) *fifth*, to pay the holders of the ordinary shares an amount equal to U.S.$2.00 in respect of each ordinary share held by them, *provided* that if the assets available for distribution to the holders of the ordinary shares are not sufficient to pay to such holders U.S.$2.00 in respect of each ordinary share, the available assets shall be distributed to holders of the ordinary shares *pro rata* according to the number of ordinary shares held by each of them; and

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

Consolidation, Merger or Transfer of Assets

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

Petitions for Bankruptcy

Each Original Purchaser of Preference Shares will be required to covenant in an Investor Application Form (and each transferee of Preference Shares will be required to covenant in a transfer certificate) that it will not cause or join in the filing of a petition in bankruptcy against the Issuer before one year and one day have elapsed since the payment in full of the Notes or, if longer, the applicable preference period (plus one day) then in effect (including any period established pursuant to the laws of the Cayman Islands), after the payment in full of all Notes.

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.

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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 in registered form and will be evidenced 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 form, and, in each case, will be 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 in registered form, will be evidenced 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 form, and will be 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 the Common Depositary notifies the Issuer that it is unwilling or unable to continue as depositary for such Regulation S Definitive Preference Share 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) LaSalle Bank National Association will be appointed as transfer agent with respect to the Preference Shares (the "Preference Share Paying Agent").

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

(v) The Administrator will be appointed as Preference Share Registrar (the "Preference Share Registrar"). The Preference Share Registrar will provide for the registration of Preference Shares and the registration of transfers of Preference Shares in the register maintained by it (the "Preference Share Register"). Written instruments of transfer are available at the office of the Preference Share Registrar and the office of the Preference Share Paying Agent.

(vi) The Issuer will, prior to the Closing Date, be authorized to issue 40,500 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share.

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Transfer and Exchange

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

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

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

Definitive Preference Shares may be exchanged or transferred in whole or in part in numbers not less that the applicable minimum trading lot by surrendering such Definitive Preference Shares at the office of the Preference Share Registrar or the office designated by the Preference Share Transfer Agent with a written instrument of transfer and written certification from each of the transferor and the transferee in the form provided in the Preference Share Paying Agency Agreement to the effect that, among other things, the transferee (i) (x) is a Qualified Institutional Buyer or (y) is entitled to take delivery of such Restricted Definitive Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (b) is a Qualified Purchaser, (c) is not a Flow-Through Investment Vehicle (other than

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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.

The Preference Share Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner of Preference Shares (A) in the case of Regulation S Preference Shares is a U.S. Person (within the meaning of Regulation S under the Securities Act) and (B) in the case of Restricted Definitive Preference Shares, is not both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (ii) a Qualified Purchaser, then the Issuer shall require, by notice to such holder, that such holder sell all of its right, title and interest to such Preference Shares (or interest therein) to a person that will take delivery of a Restricted Definitive Preference Share and that is both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (a) upon direction from the Issuer, the Preference Share Paying Agent, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale arranged by the Collateral Manager on behalf of the Issuer (conducted by an investment bank selected by the Preference Share Paying Agent and approved by the Collateral Manager 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 will take delivery of a Restricted Definitive Preference Share and that certifies to the Preference Share Paying Agent, the Collateral Manager, the Preference Share Registrar and the Issuer, in connection with such transfer, that such person is a both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Restricted 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), (ii) a Qualified Purchaser and (iii) not a Benefit Plan Investor or a Controlling Person and (b) pending such transfer, no further payments will be made in respect of such Preference Share held by such beneficial owner.

(ii) No Reg Y Institution may transfer any Preference Shares held by it to any person other than (a) a person or group of persons under common control that controls the Issuer without reference to any Preference Shares transferred to such person or group by such Reg Y Institution (a "Controlling Party"), (b) a person or persons designated by a Controlling Party, (c) in a widespread public distribution as part of a public offering, (d) in amounts such that, after giving effect thereto, no single transferee and its affiliates will hold more than 2% of the aggregate number of Preference Shares (including all options,

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warrants and similar rights exercisable or convertible into Preference Shares) or (e) as otherwise permitted by applicable U.S. Federal banking law and regulations. See "Transfer Restrictions." Except for an Original Purchaser of a Restricted Definitive Preference Share, no Preference Shares may be held by or transferred to a Controlling Person.

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

The Preference Share Paying Agency Agreement provides that if the Issuer determines that any beneficial owner of a Preference Share (other than an Original Purchaser of a Restricted Definitive Preference Share) is a Benefit Plan Investor or a Controlling Person, or that an Original Purchaser did not disclose in an Investor Application Form, purchaser letter in the form of Exhibit A or a transfer certificate in the form attached to the Preference Share Paying Agency Agreement delivered to the Issuer at the time of its acquisition of such beneficial interest whether it is a Benefit Plan Investor (including insurance company general accounts with assets constituting plan assets) or a Controlling Person or, subsequent to the purchase of a Preference Share, any beneficial owner is or has become a Benefit Plan Investor (including insurance company general accounts with assets constituting plan assets) or a Controlling Person, then the Issuer shall require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest in or to such Preference Shares to a Person that is (1) in the case of Restricted Definitive Preference Shares (A) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Restricted Definitive Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (B) a Qualified Purchaser and (C) not a Benefit Plan Investor or a Controlling Person or (2) in the case of Regulation S Global Preference Shares or Regulation S Definitive Preference Shares, neither (A) a U.S. Person nor (B) a Benefit Plan Investor or a Controlling Person, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (I) upon direction from the Issuer, the Preference Share Paying Agent (on behalf of and at the expense of the Issuer) shall cause such beneficial owner's interest in such Preference Shares to be transferred in a commercially reasonable sale arranged by the Collateral Manager on behalf of the Issuer (conducted by an investment bank selected by the Preference Share Paying Agent and approved by the Collateral Manager in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person that certifies to the Preference Share Paying Agent and the Issuer, in connection with such transfer, that such person is (A) 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

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in the percentage of such general account consisting of plan assets above the percentage specified in the questionnaire submitted with the relevant Investor Application Form, purchaser letter in the form of Exhibit A or a transfer certificate in the form attached to the Preference Share Paying Agency Agreement.

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

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

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

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

No Gross-Up

All distributions of dividends and return of capital on the Preference Shares will be made without any deduction or withholding for or on account of any tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If the Issuer is so required to deduct or withhold, then the Issuer will instruct the Preference Share Paying Agent to make such deduction or withholding and will pay any such withholding

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

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USE OF PROCEEDS

The gross proceeds received from the issuance and sale of the Offered Securities will be approximately U.S.$151,125,000. The net proceeds from the issuance and sale of the Offered Securities are expected to be approximately U.S.$150,000,000, which reflects the payment from such gross proceeds of approximately U.S.$1,125,000 of organizational fees and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers and the Initial Purchaser), certain of the expenses of offering the Offered Securities and the initial deposits into the Expense Account. Any such proceeds not deposited into the Expense Account will be deposited by the Trustee in the UA Collateral Subaccount and invested in the Initial Underlying Assets. In consideration of MLI's role in the structuring of the issuance of the Offered Securities and of the Swap Agreement and of its role as Initial Purchaser, MLI will receive a Structuring Fee, which is payable out of available Interest Proceeds and Principal Proceeds in accordance with the Priority of Payments. See "Security for the Notes."

RATINGS OF THE OFFERED SECURITIES

It is expected that the Class A Notes will be rated "AAA" by Standard & Poor's, that the Class B Notes will be rated at least "AA" by Standard & Poor's, that the Class C Notes will be rated at least "A" by Standard & Poor's and that the Class D Notes will be rated at least "BBB" by Standard & Poor's. The ratings assigned by Standard & Poor's to the Class A Notes and the Class B Notes address the timely payment of interest and ultimate payment of principal on each such Class of Notes at its Stated Maturity. The ratings assigned by Standard & Poor's to the Class C Notes and the Class D Notes address the ultimate payment of interest (including interest on all Class C Deferred Interest Amounts and Class D Deferred Interest Amounts, as applicable) and principal on such Class of Notes at its Stated Maturity. The Preference Shares will not be rated by any rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision at any time.

Moody's is referred to in this Offering Circular as a Rating Agency and, in order to satisfy the Rating Condition, Moody's approval in many cases is required and certain of the Trading Criteria have been derived from Moody's methodology. However, the Issuer has not requested that Moody's provide a rating on any of the Offered Securities. The Swap Counterparty anticipates receiving a rating from Moody's in connection with a transaction entered into by it with a Supersenior Institution.

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

MATURITY, PREPAYMENT AND YIELD CONSIDERATIONS

The Stated Maturity of the Notes is the Distribution Date in September 2040. The Notes will mature at their Stated Maturity unless redeemed or repaid prior thereto or unless the Extended Maturity Date is applicable. 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 Floating Amount Events or Credit Events with respect to the Credit Default Swaps, (b) all outstanding Notes are redeemed on the Distribution Date occurring in September 2010 and (c) LIBOR for each future Interest Period equals the rate for such Interest Period based on the zero coupon swap curve with such rate initially to be equal to approximately 3.56%, (i) the average life of the Class A Notes would be approximately 5.0 years from the Closing Date, (ii) the average life of the Class B Notes would be approximately 5.0 years from the Closing Date, (iii) the average life of the Class C Notes would be

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approximately 5.0 years from the Closing Date, (iv) the average life of the Class D Notes would be approximately 5.0 years from the Closing Date and (v) the Macaulay duration of the Preference Shares would be approximately 4.03 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 Credit Default Swaps and do not constitute a prediction with respect to the rates or timing of receipts of Interest Proceeds or Principal Proceeds, or credit events to which the Credit Default Swaps 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. 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 Reference Entities of the Reference Obligations 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 rate of occurrence of Credit Events and Floating Amount Events and the actual level of recoveries on any Deliverable Obligations, and the length of time required in order for the Issuer to sell such Deliverable Obligations. The rate of occurrence of Credit Events and Floating Amount Events and the amount and timing of any cash realization from Deliverable Obligations 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 July 12, 2005 in the Cayman Islands, has a registered number of 151665 and is in good standing under the laws of the Cayman Islands. The registered office of the Issuer is at the offices of Maples Finance Limited, P.O. Box 1093 GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. The telephone number is 345-945-7099. 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 Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap and the Issuer's obligations to the Trustee. The entire authorized share capital of the Issuer will consist of (a) 250 ordinary shares, par value U.S.$1.00 per share (which will be held on trust for charitable purposes by Maples Finance Limited in the Cayman Islands (in such capacity, the "Share Trustee") under the terms of a declaration of trust) and (b) 40,500 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share.

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

The Co-Issuer, a special purpose vehicle, was organized on August 3, 2005 under the laws of the State of Delaware with the state identification number 4009567 and its registered office is c/o National Corporate Research, Ltd., 615 South DuPont Highway, Dover, Delaware 19901. The telephone number is 302-738-6680. The independent manager of the Co-Issuer is Donald J. Puglisi and he may be contacted at c/o Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19711. The Co-Issuer has no prior operating experience. It will not have any assets (other than its U.S.$250 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 Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap, the Supersenior Swap or other assets held by the Issuer and will have no claim against the Issuer with respect to the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap, the Supersenior Swap 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, the Placement Agent or any of their respective affiliates or any directors or officers of the Co-Issuers.

Maples Finance 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 Guy Major, Phillipa White and Wendy Ebanks, each of whom is a

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director, officer or employee of the Administrator and each of whose offices are at Maples Finance Limited, P. O. Box 1093 GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Administration Agreement may be terminated by either the Issuer or the Administrator upon three months' written notice, in which case a replacement Administrator would be appointed.

The Administrator's principal office is at Maples Finance Limited, P. O. Box 1093 GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands.

Capitalization and Indebtedness of the Issuer

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

Class A Notes	U.S.$24,375,000
Class B Notes	U.S.$41,250,000
Class C Notes	U.S.$20,625,000
Class D Notes	U.S.$24,375,000
Total Debt	U.S.$110,625,000
Ordinary Shares	U.S.$ 250
Preference Shares	U.S.$40,500,000 *
Total Equity	U.S.$40,500,250
Total Capitalization	U.S.$151,125,250

* Represents the aggregate liquidation preference, which may exceed the proceeds to the Issuer.

As of the Closing Date and after giving effect to the issuance of the Preference Shares, the authorized and issued share capital of the Issuer will be 250 ordinary shares, par value U.S.$1.00 per share and 40,500 Preference Shares, par value U.S.$0.01 per share, having a liquidation preference of U.S.$1,000 per share.

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

The Co-Issuer will be capitalized only to the extent of its U.S.$250 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.$250. The Issuer will have a capital account of U.S.$250 in the Co-Issuer representing all of the capital of the Co-Issuer. The Indenture will prohibit the Issuer from taking any action that would constitute an abuse of its control of the Co-Issuer.

Business

The Indenture 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 entering into and liquidation of the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap and the acquisition and disposition of Eligible Investments, the UA Eligible Investments, the Underlying Assets and Deliverable Obligations, (iii) the entering into, and the performance of its obligations under the

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Indenture, the Notes, the Purchase Agreement, the Account Control Agreement, the Preference Share Paying Agency Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Master Agreement, the Total Return Swap and the Supersenior Swap, (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.

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

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SECURITY FOR THE NOTES

General

Under the terms of the Indenture, the Issuer will grant to the Trustee a first priority security interest in all of the Collateral in order to secure the Issuer's obligations (a) to the Trustee under the Indenture, (b) to the Swap Counterparty under the Master Agreement, the Total Return Swap, the Credit Default Swaps, the Hedging Credit Default Swaps and the Supersenior Swap, (c) to the Noteholders under the Indenture and the Notes, (d) to the Collateral Administrator under the Collateral Administration Agreement and (e) to the Collateral Manager under the Collateral Management Agreement (each, a "Secured Party"). The Collateral that is subject to the security interest of the Indenture is as follows: (a) the Custodial Account, the Credit Default Swaps, the Hedging Credit Default Swaps and the Deliverable Obligations, (b) the Interest Collection Account, the Principal Collection Account, the Payment Account, the Expense Account, Collateral Account, the Counterparty Collateral Account, all funds and other property standing to the credit of each such account, Eligible Investments, UA Eligible Investments and Underlying Assets 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 Master Agreement, the Collateral Administration Agreement, the Administration Agreement, the Supersenior Swap and the Total Return Swap, (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 aggregate Reference Obligation Notional Amount of Credit Default Swaps (the "Reference Pool Notional Amount") which the Issuer expects to enter into on the Closing Date was U.S.$750,000,000 on September 19, 2005. However, there may have occurred prior to the Closing Date or may occur on the Closing Date Principal Payments on the Reference Obligations which cause the Reference Pool Notional Amount to be less than U.S.$750,000,000 on the Closing Date. The Reference Portfolio with respect to the Credit Default Swaps as of September 19, 2005 is listed on Schedule B hereto (the "Reference Pool Schedule").

Asset-Backed Securities

Each Credit Default Swap will reference a Reference Obligation which is an Asset-Backed Security. The Issuer will not acquire such Asset-Backed Security but it will have credit exposure to it under the Credit Default Swap as described below.

"Asset-Backed Securities" are obligations or securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of financial assets, either static or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities.

The term "Asset-Backed Securities" is generally used to refer to securities for which the underlying collateral consists of assets such as credit card receivables, home equity loans, leases, commercial mortgage loans and debt obligations. 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

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

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

Asset-Backed Securities also use various forms of credit enhancements to transform the risk-return profile of underlying collateral, including third-party credit enhancements, recourse provisions, overcollateralization and various covenants. Third-party credit enhancements include standby letters of credit, collateral or pool insurance, or surety bonds from third parties. Recourse provisions are guarantees that require the originator to cover any losses up to a contractually agreed-upon amount. One type of 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.

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

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

Securities backed by closed-end installment loans are typically the least complex form of asset-backed instruments. Collateral for these Asset-Backed Securities typically includes leases, student loans and automobile loans. The loans that form the pool of collateral for the Asset-Backed Securities may have varying contractual maturities and may or may not represent a heterogeneous pool of borrowers. Unlike a mortgage pass-through instrument, the trustee typically does not need to take physical possession of any account documents to perfect a security interest in the receivables under the Uniform Commercial Code. The repayment stream on installment loans is fairly predictable, since it is primarily determined by a contractual amortization schedule. Early repayment on these instruments can occur for a 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

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securities backed by credit cards is a master trust structure with a "spread account," which is funded up to a predetermined amount through "excess yield"—that is, interest and fee income less credit losses, servicing and other fees. With credit card receivables, the income from the pool of loans—even after credit losses—is generally much higher than the return paid to investors. After the spread account accumulates to its predetermined level, the excess yield reverts to the issuer. Under GAAP, issuers are required to recognize on their balance sheet an excess yield asset that is based on the fair value of the expected future excess yield; in principle, this value would be based on the net present value of the expected earnings stream from the transaction. Issuers are further required to revalue the asset periodically to take account of changes in fair value that may occur due to interest rates, actual credit losses and other factors relevant to the future stream of excess yield. The accounting and capital implications of these transactions are discussed further below.

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

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

Asset-Backed Securities carry coupons that can be fixed or floating. Pricing is typically designed to mirror the coupon characteristics of the loans being securitized. The spread 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

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

RMBS may have structural characteristics that distinguish them from other Asset-Backed Securities. The rate of interest payable on RMBS 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 investors. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors. The Soldiers' and Sailors' Civil Relief Act of 1940 (the "Relief Act") provides relief for soldiers and members of the reserve called to active duty by capping the interest rates on their mortgage loans at 6% *per annum*.

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

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

RMBS may be in the form of certificates of beneficial ownership of the underlying mortgage loan pool. These securities are entitled to payments provided for in the underlying agreement only when and if funds are generated by the underlying mortgage loan pool. The likelihood of return of interest and principal may be assessed as a credit matter. However, securityholders do not have the legal status of

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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 Securities are more likely to be affected by such delinquencies, prepayments and losses.

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

Certain interest rate features of many mortgage loans may increase credit, liquidity and interest rate risk with respect to residential mortgage-backed transactions. Mortgage loans may be structured with balloon payments, which increase the likelihood of default by the borrower at maturity. A number of mortgage loans convert from fixed to floating rates after a fixed period of time or may, at the option of the borrower, be converted to another rate. In addition, floating rate mortgage loans may be priced off of a wide variety of interest rates, which make it difficult to predict expected future interest on a mortgage loan portfolio. Certain mortgage loans contain negative amortization provisions which result in capitalization of interest. In certain residential mortgage-backed transactions, negative amortization of mortgage loans in the underlying mortgage pool will result in an equivalent increase in the principal balance of the RMBS themselves, effectively resulting in capitalization of interest on the RMBS.

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

The Reference Obligations will be one of the Specified Types of Asset-Backed Securities.

The Credit Default Swaps

The description of the Credit Default Swaps below consists of a summary of certain provisions of these Credit Default Swaps and is qualified by reference to the detailed provisions of the applicable Credit

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Default Swaps. These summaries do not purport to be complete, and prospective investors must request from the Initial Purchaser, the Placement Agent or the Trustee copies of the Credit Default Swaps for more detailed information regarding the Credit Default Swaps.

General. On and after the Closing Date, the Issuer expects to enter into credit derivative transactions (each, a "Credit Default Swap"), pursuant to a 1992 ISDA Master Agreement, dated as of the Closing Date, between MLI and the Issuer (including the Schedule thereto, the "Master Agreement"). The Credit Default Swaps will consist of "pay-as-you-go" credit default swaps, each of which references a single asset-backed security (a "Reference Obligation"). Each Credit Default Swap will be evidenced by a letter of execution (a "Letter of Execution") incorporating the terms of a master confirmation (the "Master Confirmation"), substantially in the form of Exhibit B to this Offering Circular, which Letter of Execution is attached as an exhibit to the Master Confirmation. On and after the Closing Date, the Issuer and the Swap Counterparty may, however, elect to use a different form of confirmation if it is approved by each Rating Agency. The initial notional amount (the "Initial Face Amount") of each Credit Default Swap on the Closing Date is set forth on Schedule B to this Offering Circular. For the avoidance of doubt, references herein to "Credit Default Swaps" should also be deemed to include additional Credit Default Swaps.

Each Credit Default Swap entered into on the Closing Date must satisfy the Eligibility Criteria. See "Eligibility Criteria."

Changes to the Reference Obligation Notional Amount. The Initial Face Amount of a Credit Default Swap may be more or less than the Outstanding Principal Amount of the Reference Obligation referenced by it. To account for this, the Reference Obligation Notional Amount, as well as calculations of amounts payable by the parties to the Credit Default Swap in respect of Fixed Amounts, Floating Amount Events, Additional Fixed Payment Events and Credit Events occurring with respect to the applicable Reference Obligation will be adjusted by the Applicable Percentage for such Credit Default Swap. After the Effective Date for each Credit Default Swap, the Reference Obligation Notional Amount will be decreased by Principal Payments, any Failure to Pay Principal and any Writedown with respect to the related Reference Obligation. Conversely, the Reference Obligation Notional Amount will be increased by amounts payable in respect of any Writedown Reimbursements. In addition, the Reference Obligation Notional Amount will be decreased by any Physical Settlement Amounts payable by the Issuer following a Credit Event.

Floating Amounts. If the Issuer is notified by the CDS Calculation Agent or the Swap Counterparty that a Writedown, Failure to Pay Principal or Interest Shortfall (each, a "Floating Amount Event") occurs, the Issuer will owe the Swap Counterparty the related Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (each, a "Floating Amount"), as applicable, on the Floating Rate Payer Payment Date.

The Swap Counterparty will not deliver any Deliverable Obligation to the Issuer in exchange for payment of the Floating Amount.

Unlike a Writedown or Failure to Pay Principal, an Interest Shortfall will not reduce the Reference Obligation Notional Amount. The Interest Shortfall Payment Amount owed by the Issuer will be netted against the Fixed Amount owed by the Swap Counterparty under the Credit Default Swap. Once the Fixed Amount has been reduced to zero, any excess of the Interest Shortfall Payment Amount over the Fixed Amount will not be payable by the Issuer.

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In the case of a Writedown or a Failure to Pay Principal, the Swap Counterparty will have the option, exercisable in its sole discretion, either to cause the Issuer to pay a Floating Amount or to treat it as a Credit Event and physically settle the Credit Default Swap, in part or in whole.

The CDS Calculation Agent or the Swap Counterparty must, as a condition to payment of a Floating Amount, provide the Issuer with a notice that satisfies the requirements of a Notice of Publicly Available Information.

The Floating Amount Events are as follows:

(i) "Writedown"

A "Writedown" is the occurrence at any time on or after the Effective Date of (i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (howsoever described in the Underlying Instruments) to the Reference Obligation resulting in a reduction of the current interest payable on the Reference Obligation; (ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or (iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the CDS Calculation Agent. The Swap Counterparty may not deliver a Notice of Physical Settlement in respect of a Floating Amount Event that is a Writedown described in clause (ii) of the definition thereof if the Swap Counterparty and/or its affiliates owns 100% of the outstanding principal amount or Certificate Balance of the related Reference Obligation.

(ii) "Failure to Pay Principal"

A "Failure to Pay Principal" is (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; *provided* that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

(iii) "Interest Shortfall"

An "Interest Shortfall" is, with respect to any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.

Fixed Amounts. In exchange for the credit protection provided under each Credit Default Swap, on each Fixed Rate Payer Payment Date, the Swap Counterparty will pay the Issuer an amount ("Fixed Amount") equal to the product of (a) the Fixed Rate; (b) an amount equal to the sum of the Reference Obligation Notional Amount on each day in the related Fixed Rate Payer Calculation Period, divided by the actual number of days in the related Fixed Rate Payer Calculation Period; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360. The Fixed Amount owed by the

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Swap Counterparty may be reduced by any Interest Shortfall Payment Amount owed by the Issuer. Any Fixed Amounts paid by the Swap Counterparty will be treated as Interest Proceeds.

Additional Fixed Amounts. In addition, the Swap Counterparty will reimburse the Issuer if any Writedown Reimbursement, Principal Shortfall Reimbursement or Interest Shortfall Reimbursement (each, an "Additional Fixed Payment Event") occurs with respect to the Reference Obligation, in amounts equal to Writedown Reimbursement Payment Amounts, Principal Shortfall Reimbursement Payment Amounts and Interest Shortfall Reimbursement Payment Amounts, respectively (each, an "Additional Fixed Amount"). These amounts are payable on notice to the Swap Counterparty at any time from the Effective Date through the date that is 720 days following the Effective Maturity Date of the Credit Default Swap. Additional Fixed Payments (other than Interest Shortfall Reimbursement Payment Amounts) will be deposited into the UA Collateral Subaccount and invested in Underlying Assets.

Credit Event. If a "Credit Event" occurs, the Swap Counterparty may elect to deliver a Notice of Physical Settlement to the Issuer. If the Conditions to Settlement are satisfied and the Swap Counterparty delivers an appropriate Deliverable Obligation, the Issuer will pay the Swap Counterparty a Physical Settlement Amount. The Conditions to Settlement may be satisfied on more than one occasion, and the Issuer may have to pay more than one Physical Settlement Amount.

The Credit Events are as follows:

(i) "Failure to Pay Principal"

The Swap Counterparty may, by delivering a Notice of Physical Settlement, direct that a Failure to Pay Principal otherwise constituting a Floating Amount Event be treated as a Credit Event.

(ii) "Writedown"

The Swap Counterparty may, by delivering a Notice of Physical Settlement, direct that a Writedown otherwise constituting a Floating Amount Event be treated as a Credit Event. However, the Swap Counterparty may not deliver a Notice of Physical Settlement in respect of a Writedown described in clause (ii) of the definition thereof if the Swap Counterparty and/or its affiliates owns 100% of the outstanding principal amount or Certificate Balance of the related Reference Obligation.

(iii) "Distressed Ratings Downgrade"

A "Distressed Ratings Downgrade" occurs with respect to a Reference Obligation when (i) if publicly rated by Standard & Poor's and Moody's on the Effective Date, the rating of such Reference Obligation is downgraded to "CCC-" or lower (or "CC" or lower in the case of a CDO Security) by Standard & Poor's and "Ca" or lower by Moody's (and, unless the rating from Moody's is "C" or lower, at least six months have elapsed since the downgrade to "Ca" by Moody's and such rating has not been restored to a rating that is at least "Caa" during such six-month period); (ii) if publicly rated by Standard & Poor's and not publicly rated by Moody's on the Effective Date, the rating of such Reference Obligation is downgraded to "CCC-" or lower (or "CC" or lower in the case of a CDO Security) by Standard & Poor's; (iii) if publicly rated by Moody's and not publicly rated by Standard & Poor's on the Effective Date, the rating of such Reference Obligation is downgraded to "Ca" or lower by Moody's (and, unless the rating from Moody's is "C" or lower, at least six months have elapsed since the downgrade to "Ca" by Moody's and such rating has not been restored to a rating that is at least "Caa"); or (iv) if publicly rated by Fitch and not publicly rated by either Standard & Poor's or Moody's on the Effective Date, the rating of such Reference Obligation is downgraded to "CC" or lower by Fitch.

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(iv) "Maturity Extension"

A "Maturity Extension" means an extension by or on behalf of the related Reference Entity of the Legal Final Maturity Date on or after the Effective Date, that is effected by an amendment to the Underlying Instruments occurring on or after the Effective Date.

(v) "PIK Reference Obligation Event"

A "PIK Reference Obligation Event" means, with respect to a PIK Reference Obligation, that (a) an Unreimbursed Deferred Interest Amount is determined by the CDS Calculation Agent to have existed on at least (i) 24 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur monthly, 8 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur quarterly or 4 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur semiannually, and such PIK Reference Obligation was rated "A2" or higher by Moody's, "A" or higher by Standard & Poor's (if rated by Standard & Poor's) or "A" or higher by Fitch (if rated by Fitch) on the Effective Date, or (ii) 40 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur monthly, 14 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur quarterly or 7 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur semiannually, and such PIK Reference Obligation was not rated "A2" or higher by Moody's (if rated by Moody's), "A" higher by Standard & Poor's (if rated by Standard & Poor's) or "A" or higher by Fitch (if rated by Fitch) on the Effective Date, and (b) such Unreimbursed Deferred Interest Amount is at least U.S.$50,000 in aggregate.

Conditions to Settlement. The Conditions to Settlement (the "Conditions to Settlement") will be satisfied if the Swap Counterparty delivers a Credit Event Notice, a Notice of Physical Settlement and a Notice of Publicly Available Information by the end of the Notice Delivery Period. A "Credit Event Notice" is an irrevocable notice from the Swap Counterparty to the Issuer that describes a Credit Event that occurred on or after the Effective Date for a Reference Obligation. A "Notice of Physical Settlement" is an irrevocable confirmation from the Swap Counterparty that it will settle the Credit Event through Physical Settlement and must also specify the applicable Exercise Amount and Exercise Percentage. No Notice of Physical Settlement may be delivered later than 30 calendar days after the fifth Business Day following the Effective Maturity Date. A "Notice of Publicly Available Information" is a certificate executed by the Swap Counterparty confirming that Publicly Available Information exists in relation to the event or circumstance described in the Credit Event Notice and attaching a copy of (or describing in reasonable detail) such Publicly Available Information.

A Notice of Publicly Available Information will be deemed to have been delivered by the Swap Counterparty with respect to a Writedown Credit Event if the Swap Counterparty delivers an officer's certificate executed by a managing director of the Swap Counterparty (or other substantively equivalent title) to the Issuer describing the calculation of the Writedown Amount, as applicable, and stating the source of the information used in such calculation (which must be a Servicer Report or Publicly Available Information). In addition, if the CDS Calculation Agent has previously delivered a Notice of Publicly Available Information showing in reasonable detail how such Floating Amount was calculated to the parties or the Swap Counterparty had previously delivered a Notice of Publicly Available Information showing in reasonable detail how such Floating Amount was calculated for a Floating Amount Event consisting of a Writedown or a Failure to Pay Principal, the only Condition to Settlement for a Writedown or Failure to Pay Principal Credit Event will be the delivery of a Notice of Physical Settlement.

One or more Notices of Physical Settlement with respect to a Maturity Extension Credit Event may be delivered on or after the Legal Final Maturity Date for the applicable Reference Obligation.

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If the Swap Counterparty has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under the applicable Credit Default Swap will continue, and the Swap Counterparty may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter.

Physical Settlement. In order to effect a settlement (a "Physical Settlement"), the Swap Counterparty must deliver a Reference Obligation (a "Deliverable Obligation") having a principal amount or Certificate Balance equal to the Exercise Amount specified in the Notice of Physical Settlement. The Deliverable Obligation must be the same Reference Obligation as the Reference Obligation subject to the Credit Event, and must be delivered within five Business Days following the date that the Conditions to Settlement have been satisfied or, if the Physical Settlement Period ends on or prior to the Initial Redemption Date, on the next Distribution Date (the "Physical Settlement Date").

The "Exercise Amount" is an amount to which a Notice of Physical Settlement applies equal to the product of (i) the original face amount of the Reference Obligation to be delivered by the Swap Counterparty to the Issuer (or, in the case of a Hedging Credit Default Swap, by the Issuer to the Swap Counterparty) on the Physical Settlement Date and (ii) the Current Factor. The Exercise Amount to which a Notice of Physical Settlement relates must (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered, calculated as though the Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) U.S.$100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement may not at any time exceed the Initial Face Amount of the Credit Default Swap.

On delivery by the Swap Counterparty of a Deliverable Obligation, the Issuer must pay an amount (the "Physical Settlement Amount") equal to:

(a) the product of the Exercise Amount and the Reference Price; *minus*

(b) the sum of (i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and (ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" minus the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the Exercise Percentage;

provided that if the Physical Settlement Amount would exceed the product of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and (2) the Exercise Percentage, then the Physical Settlement Amount shall be deemed to be equal to such product.

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If the Swap Counterparty delivers a Notice of Physical Settlement but does not deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date, then such Notice of Physical Settlement will be deemed not to have been delivered.

The Collateral Manager will use commercially reasonable efforts to sell any Deliverable Obligation on behalf of the Issuer by the earlier of two years after its Delivery Date and the Business Day prior to the Extended Maturity Date. On each Delivery Date prior to the Initial Redemption Date, if, after giving effect to the delivery of any Deliverable Obligation, the aggregate par amount of the Deliverable Obligations held by the Issuer exceeds 15% of the Reference Pool Notional Amount on such Delivery Date, the Collateral Manager will use commercially reasonable efforts to sell Deliverable Obligations within 60 days following the Delivery Date of such Deliverable Obligation, such that the aggregate par amount of all Deliverable Obligations held by the Issuer is 15% or less of the Reference Pool Notional Amount. Deliverable Obligation Sales Proceeds (other than any portion thereof constituting Interest Proceeds) and any Deliverable Obligation Payments (other than any portion thereof constituting Interest Proceeds) will be credited to the UA Collateral Subaccount and invested in Underlying Assets. Any portion of Deliverable Obligation Sales Proceeds or Deliverable Obligation Payments that are Interest Proceeds will be deposited in the Interest Collection Account. The Collateral Manager (on behalf of the Issuer) also will use commercially reasonable efforts to sell the Deliverable Obligations prior to the Redemption Date, Accelerated Maturity Date or a Mandatory Redemption Date, except as otherwise provided in the Indenture. However, there can be no assurance that the Collateral Manager will be able to sell any Deliverable Obligation on any such date.

If the Physical Settlement Trigger Date occurs under the Supersenior Swap, on each Delivery Date thereafter, the Swap Counterparty will not deliver any Deliverable Obligation to the Issuer, but instead the Deliverable Obligation will be delivered to the Swap Counterparty under the Supersenior Swap, and the Issuer will have no interest in the Deliverable Obligation Sales Proceeds and any Deliverable Obligation Payments with respect to such Deliverable Obligation. See "The Supersenior Swap."

Retention of Writedown Amounts and Interest Shortfall Payment Amounts. In the event that at any time the short-term unsecured debt rating of the Swap Counterparty (and its guarantor) is less than "A1+" by Standard & Poor's (the "Minimum Swap Counterparty Rating"), all Writedown Amounts and Interest Shortfall Payment Amounts payable by (or previously paid by) the Issuer to the Swap Counterparty (from and including the Effective Date to but excluding the date of calculation and excluding (i) any Writedown Amounts or Interest Shortfall Payment Amounts relating to each Credit Default Swap that is the subject of a Credit Event Notice (other than a Writedown) or a Notice of Physical Settlement and (ii) any Writedown Amount or Interest Shortfall Payment Amount for which an Additional Fixed Payment has been paid) will be deposited by the Trustee, in the case of a Writedown Amount, into the Writedown Subaccount and, in the case of an Interest Shortfall Payment Amount, into the Interest Shortfall Subaccount, of the Counterparty Collateral Account and will be (i) disbursed by the Trustee (a) from the Writedown Subaccount to pay to the Issuer on behalf of the Swap Counterparty any Writedown Reimbursement Payment Amount and (b) from the Interest Shortfall Subaccount, to pay to the Issuer on behalf of the Swap Counterparty any Interest Shortfall Reimbursement Payment Amount, in each case, under the related Credit Default Swap, or (ii) disbursed by the Trustee from the Writedown Subaccount and the Interest Shortfall Subaccount to the Swap Counterparty on the earliest of (w) the Termination Date, (x) the Early Termination Date (where the Issuer is a "defaulting party" or "affected party" or where the Swap Counterparty is an "affected party" due to an "illegality" or a "tax event" under the Master Agreement), (y) the date on which the Swap Counterparty (or its guarantor) satisfies the Minimum Swap Counterparty Rating or takes such other action as satisfies the Rating Condition with respect to Standard & Poor's, or (z) the date on which a Credit Event Notice is given with respect to a Credit Event (other than a Writedown) or a Notice of Physical Settlement is delivered with respect to a

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Writedown Credit Event, in each case with respect to such Credit Default Swap. Any amounts in the Counterparty Collateral Account will be invested by the Trustee at the direction of the Swap Counterparty in investments which either are UA Eligible Investments or which satisfy the Underlying Assets Criteria or are otherwise permitted under the Master Agreement. All income on such investments will be paid to the Swap Counterparty.

From and after the Effective Date of a Hedging Credit Default Swap, the Swap Counterparty will not be required to deposit Interest Shortfall Payment Amounts payable under the Hedged Credit Default Swap after such Effective Date into the Interest Shortfall Subaccount, and the Trustee will not be required to deposit any Writedown Amounts payable under the Hedged Credit Default Swap into the Writedown Subaccount after such Effective Date. The Issuer will not be required to deposit any Writedown Amounts or Interest Shortfall Payment Amounts payable to the Issuer under a Hedging Credit Default Swap into a "writedown subaccount or" an "interest shortfall subaccount".

In the event that an Early Termination Date occurs for which the Swap Counterparty is the sole "defaulting party" or "affected party" under the Master Agreement (other than in the case of an "illegality" or "tax event" under the Master Agreement), amounts in the Writedown Subaccount will be retained by the Trustee until the earlier of (i) for each Writedown Amount so retained (other than with respect to a Reference Obligation which is a CDO Security), 720 days from the date on which the applicable Writedown occurred (as certified by the CDS Calculation Agent to the parties) or, in the case of any Reference Obligation which is a CDO Security, if the aggregate Writedown Amount for such Reference Obligation is less than 25% of the Reference Obligation Notional Amount as of the Early Termination Date, 3 years from the date on which the applicable Writedown occurred (as certified by the CDS Calculation Agent to the parties) (the "Final Writedown End Date") or (ii) the date on which the unpaid outstanding principal amount of each Class of Notes has been paid in full. With respect to a Reference Obligation which is a CDO Security, if the aggregate Writedown Amount for such Reference Obligation at the end of any Twelve-Month Period during such 3-year period, is equal to or greater than 25% of the Reference Obligation Notional Amount as of the Early Termination Date, such amounts shall be released to the Swap Counterparty from the Writedown Subaccount. Amounts in such Writedown Subaccount shall be disbursed by the Trustee (i) to pay to the Issuer on behalf of the Swap Counterparty any Writedown Reimbursement Payment Amount that becomes payable under each Credit Default Swap, (ii) to pay to the Swap Counterparty, in the event that the amount in the Writedown Subaccount is greater than the outstanding principal amount of the Notes, the amount of the excess, and (iii) to pay to the Swap Counterparty on the applicable Final Writedown End Date any remaining amount in the Writedown Subaccount with respect to the applicable Writedown Amount.

In the event that an Early Termination Date occurs for which the Swap Counterparty is the sole "defaulting party" or "affected party" under the Master Agreement (other than in the case of an "illegality" or "tax event" under the Master Agreement), amounts in the Interest Shortfall Subaccount will be retained by the Trustee until the earlier of (i) for each Interest Shortfall Payment Amount so retained, 720 days from the date on which the applicable Interest Shortfall occurred (as certified by the CDS Calculation Agent to the parties) (the "Final Interest Shortfall End Date") or (ii) the date on which the unpaid outstanding principal amount of each Class of Notes has been paid in full. Amounts in such Interest Shortfall Subaccount shall be disbursed by the Trustee (i) to pay to the Issuer on behalf of the Swap Counterparty any Interest Shortfall Reimbursement Payment Amount that becomes payable under each Credit Default Swap and (ii) to pay to the Swap Counterparty on the applicable Final Interest Shortfall End Date any remaining amount in the Interest Shortfall Subaccount.

The Swap Counterparty currently does not satisfy the Minimum Swap Counterparty Rating.

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Termination of Credit Default Swaps. Unless terminated earlier as described under "The Master Agreement—Early Termination," each Credit Default Swap will terminate on the date (the "Termination Date") that is the last to occur of (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date. If the Master Agreement is terminated by the Issuer or the Swap Counterparty, each Credit Default Swap also will terminate. See "The Master Agreement."

Adjustment of CDS Calculation Agent Determinations. In the event that any calculations or determinations ("Relevant Determinations") made by the CDS Calculation Agent (or its designee) under a Credit Default Swap are based upon or derived from information in a Servicer Report or other document (including information provided in public sources that are customarily used by the CDS Calculation Agent) prepared by a servicer, trustee, paying agent or other information provider provided for in the applicable Underlying Instruments (the "Information Provider"), and the Information Provider subsequently issues corrections or adjustments to such information, the CDS Calculation Agent will, to the extent it deems such corrections or adjustments to have an impact on any Relevant Determinations, correct or adjust such Relevant Determinations to conform to the corrections or adjustments to such revised information. The corrections or adjustments to the Relevant Determinations will be corrected or adjusted retroactively to the date the original payment was made (the "Original Payment Date") by the CDS Calculation Agent to reflect the corrected information, and the CDS Calculation Agent will promptly notify both parties of any corrected payments required to be made (with interest) (the "Relevant Determination Adjustment") by either party. Interest will accrue on any adjusted amount at the Adjusted Amount Interest Rate from (and including) the Original Payment Date to (but excluding) the date such adjusted amount is paid, calculated on a non-compounded basis and based upon a 360-day year and the actual number of days elapsed). Such corrected payments shall be made within five Business Days of such notification (each, a "Relevant Determination Adjustment Payment Date").

In the event that the CDS Calculation Agent has not yet received a Servicer Report from an Information Provider three Business Days prior to any Fixed Rate Payer Payment Date or Additional Fixed Amount Payment Date hereunder, the CDS Calculation Agent may make reasonable assumptions to calculate any Fixed Amount or Additional Fixed Amount. In the event that such assumption proves to have been incorrect when the next Servicer Report from the Information Provider is received by the CDS Calculation Agent, the CDS Calculation Agent will correct or adjust the Relevant Determinations (in the event such assumptions had an impact on any Relevant Determinations) to conform to the corrections or adjustments to the revised information. The corrections or adjustments to the Relevant Determinations will be corrected or adjusted retroactively under each Credit Default Swap to the Original Payment Date to reflect the corrected information. The CDS Calculation Agent will promptly notify both parties of any corrected payments required by either party. Interest will accrue on any adjusted amount at the Adjusted Amount Interest Rate from (and including) the Original Payment Date to (but excluding) the date such amount is paid, calculated on a non-compounded basis and based upon a 360-day year and the actual number of days elapsed. The CDS Calculation Agent will promptly notify both parties of any corrected payments required by either party. Such corrected payments shall be made within five Business Days of such notification.

Any amount payable by the Issuer in respect of corrections and adjustments (and interest thereon) will be payable only from Interest Proceeds held in the Interest Collection Account (or, in the case of a Relevant Determination Principal Adjustment, only from funds in the Collateral Account not payable under the Total Return Swap) and, to the extent that Interest Proceeds (or, in the case of a Relevant Determination Principal Adjustment, funds in the Collateral Account) are insufficient to make such payment, the deficiency will be deferred and paid on the first day when Interest Proceeds are available in the Interest Collection Account (or, in the case of a Relevant Determination Principal Adjustment, in the Collateral Account).

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Changes to Reference Pool Notional Amount. The Reference Pool Notional Amount of the Credit Default Swaps that the Issuer expects to enter into on the Closing Date is approximately U.S.$750,000,000. However, there may have occurred prior to the Closing Date, or may occur on the Closing Date, Principal Payments on the Reference Obligations which will cause the Reference Pool Notional Amount to be less than U.S.$750,000,000 on the Closing Date. The Reference Pool Notional Amount is subject to increase and decrease as provided herein; *provided* that the portion of the Reference Pool Notional Amount that are not Hedged Credit Default Swaps will never be greater than U.S.$750,000,000. The Reference Obligation Notional Amount for each Credit Default Swap will be increased and decreased as described under "—Changes to the Reference Obligation Notional Amount." No Credit Default Swap may be removed from the Reference Pool by the Issuer. During the Reinvestment Period, the Issuer may enter into additional Credit Default Swaps to the extent that there are Principal Payments on any Reference Obligations in the Reference Pool. In addition, during the Reinvestment Period, (i) the Collateral Manager may cause the Issuer to enter into Hedging Credit Default Swaps in respect of Credit Improved Reference Obligations and Credit Risk Reference Obligations, thereby allowing the Issuer to enter into additional Credit Default Swaps in an aggregate Reference Obligation Notional Amount up to the aggregate Reference Obligation Notional Amount of the Hedging Credit Default Swaps and (ii) the Collateral Manager may cause the Issuer to enter into additional Credit Default Swaps having an aggregate Reference Obligation Notional Amount of up to the aggregate amount of any Deliverable Obligation Sales Proceeds (excluding any portion thereof consisting of Interest Proceeds) received by the Issuer upon the sale of Deliverable Obligations. See "—Reinvestment Period," "—Entry into Additional Credit Default Swaps" and "—Hedging Credit Default Swaps" below.

Eligibility Criteria

Each Credit Default Swap must satisfy the following Eligibility Criteria (the "Eligibility Criteria"):

(A) the Credit Default Swap is documented by a Confirmation substantially in the form attached hereto as Exhibit B or such other form that satisfies the Rating Condition;

(B) the Reference Entity of each Reference Obligation is organized or incorporated under the laws of the United States or a state thereof or in a Special Purpose Vehicle Jurisdiction;

(C) the Reference Obligation related to the Credit Default Swap is an Asset-Backed Security of a Specified Type;

(D) the Reference Obligation related to the Credit Default Swap is denominated and payable only in U.S. Dollars and may not be converted into a security payable in any other currency;

(E) the Reference Obligation related to the Credit Default Swap requires the payment of a fixed amount of principal in cash no later than its stated maturity or termination date;

(F) the Reference Obligation related to the Credit Default Swap is in registered form for U.S. Federal income tax purposes and was issued after July 18, 1984; *provided* that an interest in a trust treated as a grantor trust for U.S. Federal income tax purposes will not be treated as in registered form unless each of the obligations or securities held by such trust was issued after that date;

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(G) the Issuer will receive payments due under each Credit Default Swap free and clear of withholding tax, other than withholding tax as to which the Swap Counterparty 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;

(H) the Issuer will not 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 a Credit Default Swap;

(I) the Reference Obligation related to the Credit Default Swap 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;

(J) the Reference Obligation related to the Credit Default Swap is not a Defaulted Reference Obligation or a Written Down Reference Obligation;

(K) the Reference Obligation related to the Credit Default Swap is not Margin Stock;

(L) the Reference Obligation related to the Credit Default Swap is not a financing by a debtor-in-possession in any insolvency proceeding;

(M) the Reference Obligation related to the Credit Default Swap is not a security that by the terms of its Underlying Instrument 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;

(N) the Reference Obligation related to the Credit Default Swap is not the subject of an Offer (other than an Offer to exchange such security for a security that constitutes a Reference Obligation 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 than, the security being exchanged) and has not been called for redemption;

(O) the Reference Obligation related to the Credit Default Swap is not a security with respect to which the Issuer is required pursuant to the Underlying Instruments to make any payment or advance to the Reference Entity thereof;

(P) the Reference Obligation related to the Credit Default Swap provides for periodic payments of interest in cash not less frequently than quarterly;

(Q) the stated final maturity of the Reference Obligation related to such Credit Default Swap occurs no later than two Business Days prior to the Stated Maturity of the Notes, *provided* that if such Reference Obligation is a Residential A Mortgage Security, a Residential B/C Mortgage Security or a CDO Security that is of a Specified Type, such Reference Obligation may have a stated maturity occurring after such date and up to five years after the Stated Maturity of the Notes if, after giving effect to execution of the related Credit Default Swap, no more than 5.0% of the Reference Pool Notional Amount (excluding Hedged

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Credit Default Swaps) consists of such Residential A Mortgage Securities, Residential B/C Mortgage Securities and CDO Securities;

(R) the Reference Obligation related to the Credit Default Swap is not a Credit Risk Reference Obligation;

(S) the Reference Obligation related to the Credit Default Swap is not a PIK Reference Obligation which has deferred or capitalized interest;

(T) the Reference Obligation related to the Credit Default Swap is a Floating Rate Reference Obligation;

(U) the Reference Obligation related to the Credit Default Swap does not have an Average Life of greater than 8.25 years;

(V) the Reference Obligation related to the Credit Default Swap is not a Prohibited Reference Obligation;

(W) the Fixed Rate for the Reference Obligation related to the Credit Default Swap is less than or equal to 1.80% *per annum*, unless the Collateral Manager, in accordance with commercially reasonable practice and methodology, determines that the Fixed Rate for such Reference Obligation is no greater than 0.25% *per annum* above the average new issue spread for comparable securities issued over the immediately preceding six weeks;

(X) the Reference Obligation related to the Credit Default Swap has (a) if such Reference Obligation is a CDO Security, except as provided in clause (j) of the definition of "Concentration Limitations," a public rating from Standard & Poor's (if publicly rated by Standard & Poor's) of at least "A," a public rating from Moody's (if publicly rated by Moody's) of at least "A2" and a public rating from Fitch (if publicly rated by Fitch) of at least "A," (b) if such Reference Obligation is not a CDO Security, a public rating from Standard & Poor's (if publicly rated by Standard & Poor's) of at least "BBB-", a public rating from Moody's (if publicly rated by Moody's) of at least "Baa3" and a public rating from Fitch (if publicly rated by Fitch) of at least "BBB-" and (c) if publicly rated by Standard & Poor's, such rating does not contain the subscript "p," "pi," "q," "r," or "t"); and

(Y) the Reference Obligation related to the Credit Default Swap has a Moody's Rating of at least "Baa3" and a Standard & Poor's Rating of at least "BBB-."

During the Reinvestment Period, the Issuer may not enter into any Credit Default Swaps unless such Credit Default Swaps satisfy the Eligibility Criteria. See "—Eligibility Criteria" above.

CDS Calculation Agent

The CDS Calculation Agent will be MLI, which is also the Swap Counterparty. All calculations and other determinations made under a Credit Default Swap by the CDS Calculation Agent will be made in good faith and in a commercially reasonable manner. The CDS Calculation Agent will have no liability to the Issuer for errors in such calculations and determinations. If, however, an "event of default" or "termination event" has occurred and is continuing under the Master Agreement with respect to the Swap Counterparty, the Issuer will have the right to appoint a financial institution which would qualify as a reference market-maker to act as CDS Calculation Agent until the earlier of (i) the Early Termination Date with respect to such Credit Default Swap and (ii) the discontinuance of such "event of default" or

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"termination event" with respect to the Swap Counterparty. Any fees, costs and expenses of such appointed financial institution will be borne by the Swap Counterparty exclusively. Although the CDS Calculation Agent may use data obtained from Intex for the purposes of performing its duties under a Credit Default Swap, it may not rely upon any calculations made by Intex.

Reinvestment Period

During the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, will use its commercially reasonable efforts to enter into additional Credit Default Swaps with the Swap Counterparty and designate Reference Obligations to be added to the Reference Pool in an aggregate notional amount not to exceed the Available Reinvestment Amount. The Collateral Manager will have the discretion not to enter into Credit Default Swaps and designate Reference Obligations in respect of the Available Reinvestment Amount. Such a decision by the Collateral Manager will not, however, result in a termination of the Reinvestment Period. The Swap Counterparty and the Issuer may not enter into any additional Credit Default Swap, unless, after giving effect to execution of such additional Credit Default Swap, each of the Eligibility Criteria and Trading Criteria shall have been satisfied (or, if any Trading Criteria was not satisfied immediately prior to execution of such additional Credit Default Swap, such criteria would not be further from being satisfied after giving effect thereto).

Entry into Additional Credit Default Swaps

No later than two hours following written notice by the Collateral Manager to the Swap Counterparty specifying the Reference Obligation, the Initial Face Amount of the additional Credit Default Swap and the Reference Obligation Notional Amount on any Business Day, the Swap Counterparty shall deliver written notice (such notice, an "Additional CDS Quotation Notice") to the Issuer and the Collateral Manager containing the Swap Counterparty Additional Fixed Rate for each additional Credit Default Swap. After receipt of the Additional CDS Quotation Notice from the Swap Counterparty, the Collateral Manager may, in its sole discretion, attempt to obtain a Qualifying Additional Fixed Rate from Qualifying Counterparties with respect to such additional Credit Default Swap. After receipt of the Additional CDS Quotation Notice, the Collateral Manager may, by 4:00 PM (New York time), deliver written notice (such notice, an "Additional CDS Fixed Rate Notice") to the Swap Counterparty containing, for such additional Credit Default Swap, the Collateral Manager's selection of the Additional Fixed Rate for such additional Credit Default Swap (which may be the Swap Counterparty Additional Fixed Rate or the Qualifying Additional Fixed Rate). If the Collateral Manager shall elect to accept a Qualifying Additional Fixed Rate from a Qualifying Counterparty with respect to an additional Credit Default Swap, the Collateral Manager shall include the name of such applicable Qualifying Counterparty and the relevant contact information and settlement instructions. In the event that the Collateral Manager either (i) fails to deliver a written notice specifying the Reference Obligation, the Initial Face Amount of the additional Credit Default Swap and the Reference Obligation Notional Amount by 2:00 PM (New York time) on any Business Day or (ii) following receipt of a Additional CDS Quotation Notice from the Swap Counterparty, fails to deliver an Additional CDS Fixed Rate Notice by 4:00 PM (New York time) on such Business Day, the Swap Counterparty shall not be required to enter into an additional Credit Default Swap at the Additional Fixed Rate specified in such Additional CDS Fixed Rate Notice, *provided* that the Collateral Manager, on behalf of the Issuer, may give one or more Additional CDS Quotation Notices with respect to the same Reference Obligation in the future.

Trading Criteria

"Trading Criteria" means, during the Reinvestment Period with respect to a security to be designated as a Reference Obligation, after entry by the Issuer into a Credit Default Swap referencing such security, (a) the Standard & Poor's CDO Monitor Test would be satisfied (or, if not satisfied prior to

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the entry by the Issuer into such Credit Default Swap, the results of the Standard & Poor's CDO Monitor Test would be the same as or better than the results prior to entry by the Issuer into such Credit Default Swap), (b) the Moody's CDOROM Test Condition would be satisfied (or, if not satisfied prior to entry by the Issuer into such Credit Default Swap, the results of the Moody's CDOROM Test Condition would be the same as or better than the results prior to the entry by the Issuer into such Credit Default Swap), (c) the Standard & Poor's Minimum Recovery Rate Test would be satisfied (or, if not satisfied prior to entry by the Issuer into such Credit Default Swap, such test would not be further from being satisfied), (d) the Weighted Average Life Test would be satisfied (or, if not satisfied prior to entry by the Issuer into such Credit Default Swap, such test would not be further from being satisfied) and (e) the Concentration Limitations would be satisfied, maintained or improved.

The "Concentration Limitations" will be satisfied with respect to any security to be designated as a Reference Obligation if after giving effect to the Issuer's entry into the related Credit Default Swap (and excluding the Hedged Notional Amount from all calculations below):

(a) there are at least 60 issuers of Reference Obligations;

(b) the aggregate Reference Obligation Notional Amount of Reference Obligations of the related Reference Entity does not exceed 1.50% of the Reference Pool Notional Amount, *provided* that the aggregate Reference Obligation Notional Amount of the Reference Obligations of each of up to 30 Reference Entities may be 1.50% or more but not greater than 1.62% of the Reference Pool Notional Amount;

(c) no more than 15% of the Reference Pool Notional Amount consists of CDO Securities;

(d) no more than 5% of the Reference Pool Notional Amount consists of CLO Securities, *provided*, that any such CLO Security must have as of the date of execution of the related Credit Default Swap, a public rating from Standard & Poor's (if publicly rated by Standard & Poor's) of at least "A," a public rating from Moody's (if publicly rated by Moody's) of at least "A2" and a public rating from Fitch (if publicly rated by Fitch) of at least "A";

(e) no more than 5% of the Reference Pool Notional Amount consists of Synthetic ABS CDO Securities, *provided*, that any such Synthetic ABS CDO Security must have, as of the date of execution of the related Credit Default Swap, a public rating from Standard & Poor's (if publicly rated by Standard & Poor's) of at least "A," a public rating from Moody's (if publicly rated by Moody's) of at least "A2" and a public rating from Fitch (if publicly rated by Fitch) of at least "A" , and *provided further* that no such Synthetic ABS CDO Security shall be an Excluded Synthetic ABS CDO Security;

(f) (1) no more than 2% of the Reference Pool Notional Amount consists of Reference Obligations each of which has an Average Life of greater than 6.9 years; (2) no more than 7% of the Reference Pool Notional Amount consists of Reference Obligations each of which has an Average Life of greater than 5.9 years; and (3) no more than 27% of the Reference Pool Notional Amount consists of Reference Obligations each of which has an Average Life of greater than 4.9 years;

(g) with respect to the servicer of such security, the aggregate Reference Obligation Notional Amount of all Reference Obligations serviced by such servicer does not exceed 10.0% of the Reference Pool Notional Amount, *provided, however*, that the aggregate Reference Obligation Notional Amount serviced by any three servicers may individually exceed 10.0% of the Reference Pool Notional Balance so long as the aggregate Reference Obligation Notional Amount of such securities does not exceed 36.0% of the Reference Pool Notional Amount and so long as the aggregate Reference Obligation

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Notional Amount of Reference Obligations serviced by any one of such three servicers does not exceed 15.0% of the Reference Pool Notional Amount;

(h) no more than 5% of the Reference Pool Notional Amount consists of PIK Reference Obligations;

(i) no more than 15% of the Reference Pool Notional Amount consists of Reference Obligations which are not Real Property Asset-Backed Securities; and

(j) if such security is a CDO Security that has a public rating of less than "A" by Standard & Poor's (if publicly rated by Standard & Poor's), a public rating of less than "A2" from Moody's (if publicly rated by Moody's) or a public rating of less than "A" from Fitch (if publicly rated by Fitch), no more than 4.5% of the Reference Pool Notional Amount consists of such CDO Securities, *provided* that each such security, as of the date that the Issuer enters into the related Credit Default Swap, has a public rating from Standard & Poor's (if publicly rated by Standard & Poor's) of at least "BBB," a public rating from Moody's (if publicly rated by Moody's) of at least "Baa2," and a public rating from Fitch (if publicly rated by Fitch) of at least "BBB."

In all of the above calculations, only the Unhedged Credit Default Swaps shall be included (including in the Reference Pool Notional Amount).

The Moody's CDOROM Test

The "Moody's CDOROM Test Condition" is a condition that will be satisfied if, applying a methodology provided to the Collateral Manager and the Collateral Administrator by Moody's and specified in the Indenture, certain thresholds have been met with respect to the Reference Obligations.

The Standard & Poor's CDO Monitor Test

The "Standard & Poor's CDO Monitor Test" is a test satisfied on any date of determination if, after giving effect to the addition of a Reference Obligation to the Reference Portfolio on such 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 such Credit Default Swap.

The Collateral Manager will notify Standard & Poor's of each additional Credit Default Swap entered into on behalf of the Issuer and the Reference Obligation related thereto and certify as to compliance with the Standard & Poor's CDO Monitor Test.

The "Class Break-Even Loss Rate" means, with respect to any Class of Notes, the maximum percentage of defaults (as determined by Standard & Poor's 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, in the case of the Class A Notes and the Class B Notes, for the timely payment of interest and the ultimate payment of principal on such Class of Notes in full by their Stated Maturity and, in the case of the Class C Notes and the Class D Notes, the ultimate payment of interest (including interest on all Class C Deferred Interest Amounts and all Class D Deferred Interest Amounts) and principal on each such Class of Notes at its Stated Maturity.

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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, 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 "Current Portfolio" means the portfolio (measured by the aggregate Reference Obligation Notional Amount) of the Credit Default Swaps (excluding the Credit Default Swap proposed to be entered into and the aggregate Reference Obligation Notional Amount of all Credit Default Swaps as to which the Issuer has entered into Hedging Credit Default Swaps).

The "Proposed Portfolio" means the portfolio (measured by the aggregate Reference Obligation Notional Amount) of the Credit Default Swaps (including the Credit Default Swap proposed to be entered into but excluding the aggregate Reference Obligation Notional Amount of all Credit Default Swaps as to which the Issuer has entered into Hedging Credit Default Swaps).

The "Standard & Poor's CDO Monitor" is the dynamic, analytical computer model as updated from time to time (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 for the purpose of estimating the default risk of Reference Obligations related to Credit Default Swaps.

The Standard & Poor's CDO Monitor calculates the cumulative default rate of a pool of Reference Obligations 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 Reference Obligations and calculates a cumulative default rate based on the statistical probability of distributions of defaults on the Reference Obligations.

There can be no assurance that actual defaults of the Reference Obligations or the timing of defaults will not exceed those assumed in the application of the Standard & Poor's CDO Monitor or that recovery rates with respect thereto will not differ from those assumed in the Standard & Poor's CDO Monitor Test. Standard & Poor's makes no representation that actual defaults will not exceed those determined by the Standard & Poor's CDO Monitor. The Issuer makes no representation as to the expected rate of defaults of the Reference Obligations or the timing of defaults or as to the expected recovery rate or the timing of recoveries.

Hedging Credit Default Swaps

During the Reinvestment Period, the Collateral Manager may, if, in its sole discretion, it determines that a Reference Obligation has either declined or improved in credit quality (a "Credit Improved Reference Obligation" or a "Credit Risk Reference Obligation," respectively), cause the Issuer to enter into a credit default swap under which the Issuer buys protection with respect to the Credit Improved Reference Obligation or Credit Risk Reference Obligation (each, a "Hedging Credit Default Swap"), *provided* that after giving effect to entry by the Issuer into the Hedging Credit Default Swap, the Hedging Credit Default Swap Tests will have been satisfied (or, if any such test is not satisfied immediately prior to execution of such Hedging Credit Default Swap, such test would not be further from being satisfied after giving effect thereto). The Collateral Manager will have the discretion to designate

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Reference Obligations as Credit Risk Reference Obligations, and to cause the Issuer to enter into Hedging Credit Default Swaps in respect thereof, even after the Reinvestment Period has ended. Each Hedging Credit Default Swap will be evidenced by a confirmation (a "Hedging Credit Default Swap Confirmation") that has the same terms as the original Credit Default Swap, and will reference the same Reference Obligation, except that (i) the Issuer will be the credit protection buyer and the Swap Counterparty will be the credit protection seller, (ii) the Fixed Rate payable by the Issuer under the Hedging Credit Default Swap will be fixed by the Swap Counterparty as described below, and (iii) the Effective Date of the Hedging Credit Default Swap will be different and it will not affect the obligation of the Swap Counterparty to pay to the Issuer under the Credit Default Swap any Additional Fixed Amounts with respect to Floating Amounts paid by the Issuer prior to such Effective Date. The Issuer will not be exposed to any credit risk under a Credit Default Swap if a Hedging Credit Default Swap has been entered into with respect to the same Reference Obligation, except to the credit risk of the Swap Counterparty.

No later than two hours following written notice by the Collateral Manager to the Swap Counterparty on any Business Day, specifying a Reference Obligation as a Credit Improved Reference Obligation or a Credit Risk Reference Obligation and the Reference Obligation Notional Amount thereof, the Swap Counterparty shall deliver written notice (such notice, a "Hedging Quotation Notice") to the Issuer and the Collateral Manager specifying the Swap Counterparty Hedging Fixed Rate for the Hedging Credit Default Swap with respect to such Credit Improved Reference Obligation or Credit Risk Reference Obligation, as applicable. After receipt of the Hedging Quotation Notice from the Swap Counterparty, the Collateral Manager may, in its sole discretion, attempt to obtain a Qualifying Hedging Fixed Rate from Qualifying Counterparties with respect to such Hedging Credit Default Swap. After receipt of the Hedging Quotation Notice, the Collateral Manager may, by 4:00 PM (New York time), deliver written notice (such notice, a "Hedging Fixed Rate Notice") to the Swap Counterparty containing the Collateral Manager's selection of the Hedging Fixed Rate for such Hedging Credit Default Swap (which may be the Swap Counterparty Hedging Fixed Rate or the Qualifying Hedging Fixed Rate). If the Collateral Manager elects a Qualifying Hedging Fixed Rate from a Qualifying Counterparty with respect to a Hedging Credit Default Swap, the Collateral Manager shall include the name of such applicable Qualifying Counterparty and the relevant contact information and settlement instructions. In the event that the Collateral Manager either (i) fails to deliver a written notice specifying a Credit Improved Reference Obligation or a Credit Risk Reference Obligation and the Reference Obligation Notional Amount thereof by 2:00 PM (New York time) on any Business Day or (ii) following receipt of a Hedging Quotation Notice from the Swap Counterparty, fails to deliver a Hedging Fixed Rate Notice by 4:00 PM (New York time) on such Business Day, the Swap Counterparty shall not be required to enter into a Hedging Credit Default Swap at the Hedging Fixed Rate specified in such Hedging Fixed Rate Notice. The Issuer may not enter into a Hedging Credit Default Swap with respect to a Credit Default Swap during any Physical Settlement Period thereunder, *provided* that the Collateral Manager, on behalf of the Issuer, may give one or more notices with respect to the same Reference Obligation in the future.

THE MASTER AGREEMENT

Master Agreement: Early Termination

The Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap will be entered into by MLI and the Issuer pursuant to the Master Agreement, and will be terminated if the Master Agreement is terminated by the Issuer or MLI. Early termination of the Master Agreement also will result in Mandatory Redemption of the Offered Securities. The Master Agreement is subject to early termination by the Issuer in the event of the following "events of default" by the Swap Counterparty or "termination events" affecting the Swap Counterparty under the Master Agreement: (a) payment defaults lasting a period of at least three Business Days by the Swap

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Counterparty after notice is delivered to the Swap Counterparty; (b) bankruptcy-related events applicable to the Swap Counterparty; (c) merger by the Swap Counterparty without assumption; (d) if due to the adoption of, or any change in, any applicable law, it becomes unlawful for the Swap Counterparty to perform any obligation under the Master Agreement; (e) certain tax related events; and (f) a Credit Support Default. The events listed in (a), (b), (c) and (f) are "events of default" (as defined in the Master Agreement) by the Swap Counterparty where the Issuer will have the right, as the non-defaulting party, to set an Early Termination Date under the Master Agreement, and the events in (d) and (e) are "termination events" (as defined in the Master Agreement) affecting the Swap Counterparty where the Issuer will have the right, to set an Early Termination Date on any day not earlier than the day that notice is given with respect to the Master Agreement. In certain circumstances, the event listed in clause (b) will be an "automatic early termination event" (as defined in the Master Agreement) where the Issuer will have the right to set an Early Termination Date immediately. The Issuer may also terminate the Master Agreement if the Swap Counterparty fails to take one of the actions set forth below within the time periods in the First Level Downgrade Event or Second Level Downgrade Event, in each case if the Swap Counterparty is downgraded to the levels set forth in such events.

"First Level Downgrade Event" means, in the event that the none of the Swap Counterparty and any Rated Guarantor has a short-term debt rating of at least "A-1+" by Standard & Poor's or, if there is no short-term debt rating from Standard & Poor's, a long-term debt rating of at least "AA-" by Standard & Poor's (the "Required Ratings") and the Swap Counterparty fails to (at the Swap Counterparty's sole expense):

(i) within 30 calendar days thereafter, enter into a Credit Support Annex ("CSA") and post and maintain at all times to the Counterparty Collateral Account established by the Trustee permissible collateral under the CSA equal to (A) on September 27, 2005 and on the first Business Day of each Due Period thereafter, the Estimated Fixed Amounts (which amount will be deposited into the Swap Counterparty Premium Subaccount), and (B) as determined on each weekly valuation date under the CSA the Collateral TRS Payment Amount (which amount will be deposited in the TRS Subaccount) and (C) on September 27, 2005 and on each Swap Counterparty TRS Payment Date, the Estimated TRS Payment Amount under the Total Return Swap payable on the next Swap Counterparty TRS Payment Date (which amount will be deposited into the TRS Subaccount). On each Fixed Rate Payer Payment Date, the Trustee shall transfer from the Swap Counterparty Premium Subaccount, at the written direction of the Swap Counterparty, the Fixed Amount or the Additional Fixed Amount due on such date under the Credit Default Swap from the Swap Counterparty Premium Subaccount to the Interest Collection Account. The Swap Counterparty will not pay any Fixed Amount or Additional Fixed Amount for which sufficient funds are available in the Counterparty Collateral Account. On the first Business Day of a Due Period any remaining funds in the Swap Counterparty Premium Subaccount will be credited against the amount required to be posted in such subaccount by the Swap Counterparty on such date. On each Swap Counterparty TRS Payment Date, the Trustee will transfer, at the written direction of the Swap Counterparty from the TRS Subaccount the Total Return Swap LIBOR Payment due under the Total Return Swap, and credit any remaining balance in the TRS Subaccount against the amount required to be posted by the Swap Counterparty in such subaccount by the Swap Counterparty on that date;

(ii) assign all of its rights and obligations with respect to the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Total Return Swap (in whole but not in part) within 30 calendar days after such First Level Downgrade Event to a replacement counterparty (at the Swap Counterparty's sole expense) that has the Required Ratings;

(iii) deliver to the Trustee an absolute and unconditional guarantee from a third party of all of the obligations of the Swap Counterparty under the Master Agreement within 30 calendar days after such First Level Downgrade Event; *provided* that such third party has the Required Ratings and such guarantee

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either (a) satisfies Standard & Poor's published criteria for guarantees or (b) the form of such guarantee satisfies the Rating Condition (any such third party shall be a "Rated Guarantor"); or

(iv) take such other action as shall satisfy the Rating Condition.

"Second Level Downgrade Event" means, in the event that the Swap Counterparty and any Rated Guarantor shall each cease to have a short-term debt rating of at least "A-2" by Standard & Poor's, or, if it does not have a short-term debt rating, a long-term debt rating of at least "BBB+" by Standard & Poor's, and the Swap Counterparty fails to (at its sole expense):

(i) within 30 calendar days thereafter, (x) enter into a CSA and post and maintain at all times to the Counterparty Collateral Account established by the Trustee, permissible collateral under the CSA in the amounts and at the times set forth in the description of "First Level Downgrade Event" and deliver a Security Interest Opinion to the Issuer; provided that, in the event that the Swap Counterparty is already posting collateral pursuant to the CSA, it need only delivery a Security Interest Opinion;

(ii) assign all of its rights and obligations with respect to the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Total Return Swap (in whole but not in part) within 30 calendar days thereafter to a replacement counterparty (at the Swap Counterparty's sole expense) that has the Required Ratings;

(iii) deliver to the Trustee an absolute and unconditional guarantee or letter of credit from a third party of all of the obligations of the Swap Counterparty under the Master Agreement within 30 calendar days thereafter; *provided* that such third party has the Required Ratings and (a) such guarantee satisfies Standard & Poor's published criteria for guarantees or (b) the form of such guarantee satisfies the Rating Condition with respect to Standard & Poor's (any such third party shall be a "Rated Guarantor"); or

(iv) take such other action that will satisfy the Rating Condition.

Beginning on September 27, 2005, the Swap Counterparty will be required to take one of the actions set forth in First Level Downgrade Event. The Swap Counterparty will post such collateral in the Counterparty Collateral Account because it does not have a short-term rating of "A-1+" by Standard & Poor's.

The Master Agreement is subject to early termination by the Swap Counterparty in the event of the following "events of default" by the Issuer or "termination events" affecting the Issuer under the Master Agreement, including, but not limited to, (a) payment defaults lasting a period of at least three Business Days by the Issuer after notice is delivered to the Issuer, (b) bankruptcy-related events applicable to the Issuer, (c) if due to the adoption of, or any change in, any applicable law, it becomes unlawful for the Issuer to perform any obligation under the Master Agreement, (d) certain tax-related events, (e) an Event of Default under the Indenture and liquidation of all the Collateral thereunder and (f) a Redemption Date under the Indenture due to an Optional Redemption, a Tax Redemption or an Auction Call Redemption. The events listed in (a) and (b) are "events of default" (as defined in the Master Agreement) by the Issuer where the Swap Counterparty will have the right, as the non-defaulting party, to set an Early Termination Date under the Master Agreement, and the events in (c), (d), (e) and (f) are "termination events" (as defined in the Master Agreement) affecting the Issuer where the Swap Counterparty will have the right to set an Early Termination Date on any day not earlier than the day that notice is given with respect to the Master Agreement.

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Under the Master Agreement, with respect to an "event of default" or a "termination event," the non-defaulting party or the non-affected party will designate the Early Termination Date and will determine the Swap Termination Payment with respect to the Credit Default Swaps and the Hedging Credit Default Swaps payable to or by the Issuer, or as applicable, to or by the Swap Counterparty. Following the effective designation of an Early Termination Date, no further payments, other than the Swap Termination Payments and Unpaid Amounts, will be required to be made by either the Issuer or the Swap Counterparty under the Master Agreement (other than amounts related to Unsettled Credit Events). In addition, the Total Return Swap will terminate and the Swap Counterparty or the Issuer will make the payments of the Final Total Return Amounts. The only circumstances in which the Total Return Swap will not be terminated in full is when there is a Holdback Amount on the Stated Maturity or the Mandatory Redemption Date. In the event that there is a Holdback Amount, the Issuer will retain Underlying Assets with a principal amount or Certificate Balance equal to the Holdback Amount and the Final Total Return Amount payable on the Initial Redemption Date by the Swap Counterparty or the Issuer will exclude the principal amount or Certificate Balance of Underlying Assets equal to the Holdback Amount. On the Notice Delivery Period Expiration Redemption Date and each Delivery Date thereafter, the Trustee will sell the Underlying Assets in the UA Collateral Subaccount (in excess of the Holdback Amount) and the Swap Counterparty or the Issuer will pay a Final Total Return Amount with respect to such Underlying Assets (which the Swap Counterparty may set off against amounts due to it under the Credit Default Swaps and the Hedging Credit Default Swaps). On the last Delivery Date under the Credit Default Swaps, in the event that there were Holdback Amounts on the Stated Maturity or the Mandatory Redemption Date, the Total Return Swap will terminate.

The "Swap Termination Payment" payable by the Issuer or the Swap Counterparty will be an amount, calculated with respect to the Credit Default Swaps and the Hedging Credit Default Swaps, equal to the non-defaulting party's or non-affected party's Loss in respect of the Credit Default Swaps and the Hedging Credit Default Swaps and will be calculated in accordance with the Liquidation Procedures; *provided* that, if the Swap Counterparty is the sole "defaulting party" or sole "affected party" (other than in the case of an "illegality" or "tax event"), no Swap Termination Payment will be payable by either party (other than Unpaid Amounts). See "Description of the Notes—Liquidation Procedures." If that amount is a positive number, the defaulting or affected party will pay it to the non-defaulting party or non-affected party; if it is a negative number, the non-defaulting party or non-affected party will pay the absolute value of that amount to the defaulting party or affected party.

No Swap Termination Payment will be payable by the Issuer or the Swap Counterparty in connection with the termination of the Total Return Swap, other than the amount of the payments and deliveries accrued thereunder through the Early Termination Date; *provided* that a Swap Termination Payment will be payable by the Issuer if a "Failed Delivery Event" occurs under the Total Return Swap.

Any Swap Termination Payment due to the Swap Counterparty must be paid by the Issuer in accordance with the Priority of Payments, will rank senior to all payments in respect of the Notes and will reduce the amount available to pay interest or principal on the Notes.

No Swap Termination Payment will be payable by the Issuer or the Swap Counterparty in connection with the termination of the Supersenior Swap, other than the amount of the payments and delivery obligations accrued thereunder through the Early Termination Date.

Amendment

After the Closing Date, the Issuer and the Swap Counterparty may enter into any agreement amending the Master Agreement if the Rating Condition is satisfied with respect thereto.

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Transfer

Notwithstanding anything herein to the contrary, the Swap Counterparty may, with prior notification to each Rating Agency, assign its rights and delegate its obligations under the Master Agreement and/or any Credit Default Swap and/or any Hedging Credit Default Swap and/or the Total Return Swap and/or the Supersenior Swap, in whole or in part, to any affiliate (an "Assignee") of ML&Co., effective (the "Transfer Effective Date") upon delivery to the Issuer of both (a) an executed acceptance and assumption by the Assignee of the transferred obligations of the Swap Counterparty and/or the Swap Counterparty under the Master Agreement and/or any Credit Default Swap and/or any Hedging Credit Default Swap and/or the Total Return Swap and/or the Supersenior Swap (the "Transferred Obligations"), as applicable; and (b) an executed guarantee of ML&Co., of the Transferred Obligations, substantially in the form attached to the Master Agreement. On the Transfer Effective Date, (a) the Swap Counterparty will be released from all obligations and liabilities arising under the Transferred Obligations; and (b) the Transferred Obligations will cease to be obligations governed by the Master Agreement and/or any Credit Default Swap and/or any Hedging Credit Default Swap and/or the Total Return Swap and/or the Supersenior Swap, as applicable, and will be deemed to be transaction(s) governed by the master agreement between Assignee and the Issuer; *provided* that, if at such time Assignee and the Issuer have not entered into a master agreement, Assignee and the Issuer will be deemed to have entered into an ISDA form of Master Agreement (Multicurrency – Cross Border) with a Schedule attached thereto with the elections made in the Master Agreement with the Swap Counterparty.

Governing Law

The Master Agreement, and all matters arising from or connected with it, will be governed by, and construed in accordance with, the laws of the State of New York. Each of the Issuer and the Swap Counterparty will submit to the non-exclusive jurisdiction of the New York courts for all purposes in connection with the Master Agreement, and the Issuer will appoint National Corporate Research, Ltd. to accept service of process on its behalf.

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 funds in the Accounts will be invested in Eligible Investments.

Collateral Account

The Trustee will establish and maintain a single, segregated account (the "Collateral Account") under the Indenture, which will consist of two subaccounts, the "UA Collateral Subaccount" and the "DO Collateral Subaccount." On the Closing Date, the Issuer will deposit at least U.S.$150,000,000 of the net proceeds of the Offering (after making the deposit described below in the Expense Account) into the UA Collateral Subaccount, and such amount will be applied on the Closing Date to purchase the Initial Underlying Assets. The income on the investments in the UA Collateral Subaccount will be transferred to the Interest Collection Account on or prior to each Distribution Date and applied as Interest Proceeds, except that while the Total Return Swap is in effect, all Underlying Assets Interest Distributions on Underlying Assets subject to the Total Return Swap and any accrued interest included in the sale price of an Underlying Asset or Eligible Investment subject to the Total Return Swap sold by the Issuer will be paid to the Swap Counterparty upon receipt thereof. Prior to the Initial Redemption Date, the Trustee shall deposit all Relevant Determination Principal Adjustments, Additional Fixed Amounts (other than Interest Shortfall Reimbursement Amounts), Deliverable Obligation Sales Proceeds and Deliverable Obligation Payments (in each case, not constituting Interest Proceeds) and UA Principal Payments on the

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Underlying Assets in the UA Collateral Subaccount. Securities and cash (other than investment income) held in the UA Collateral Subaccount shall be used solely to pay Floating Amounts, Relevant Determination Principal Adjustments, Final Total Return Amounts and Physical Settlement Amounts under the Credit Default Swaps and to make payments and deliveries under the Total Return Swap, and to be applied as Principal Proceeds under the Principal Proceeds Waterfall. If such amounts exceed U.S.$100,000 (such event, a "Collateral Shortfall"), the Swap Counterparty may propose to the Issuer or the Issuer may propose to the Swap Counterparty that the TRS Outstanding Principal Amount of one or more Underlying Assets be increased or that all or a portion of one or more Underlying Assets be replaced by one or more Additional Underlying Assets meeting the Underlying Assets Criteria. In the event that the Issuer and the Swap Counterparty cannot agree on such increase or replacement within three Business Days following such date (each such date, a "Collateral Shortfall Replacement Date"), the Swap Counterparty will have the right (in its sole discretion) to determine the Additional Underlying Asset(s) to be acquired by the Issuer in respect of such amounts in the UA Collateral Subaccount. Until such time as amounts in the UA Collateral Subaccount exceed U.S$100,000, such amounts will be invested in UA Eligible Investments. If, as a result of termination of the Total Return Swap as to any or all transactions (and failure to enter into a TRS Replacement Agreement or to satisfy the Rating Condition with respect to Standard & Poor's) or for any other reason, there are no Underlying Assets which would satisfy the Underlying Assets Criteria, or if the Total Return Swap or a Replacement TRS Agreement will not be applicable to the reinvestment of cash in the UA Collateral Subaccount, the Trustee will invest all cash in the UA Collateral Subaccount in UA Eligible Investments, and will liquidate such UA Eligible Investments when required to make payments under the Indenture or the Credit Default Swaps, in accordance with the instructions of the Collateral Manager.

The Trustee will deposit all Deliverable Obligations received by the Issuer from the Swap Counterparty into the DO Collateral Subaccount, pending their sale by the Collateral Manager in accordance with the Indenture. Deliverable Obligation Sales Proceeds (other than the portion thereof constituting Interest Proceeds) and Deliverable Obligation Payments (other than the portion thereof constituting Interest Proceeds) will be applied, *first,* to pay any Supersenior Funded Amount and, *second*, credited to the UA Collateral Subaccount prior to the Initial Redemption Date (or, on or after the Initial Redemption Date, to the applicable Collection Account). Any portion of Deliverable Obligation Sales Proceeds or Deliverable Obligation Payments constituting Interest Proceeds will be deposited into the Interest Collection Account. On any Delivery Date after the Physical Settlement Trigger Date, the Deliverable Obligations will not be delivered to the DO Collateral Subaccount but instead will be delivered to the Swap Counterparty under the Supersenior Swap.

Prior to each Distribution Date on which there is a Principal Amortization Release Amount or a Holdback Release Amount, the Issuer shall, *first*, transfer the amount thereof from the proceeds of Underlying Assets (excluding interest income) in the Collateral Account that are not subject to the Total Return Swap and mature on or prior to such date, *second*, obtain the remainder pursuant to the Total Return Swap if it is then in effect, and, *third*, if the Total Return Swap is not in effect or the proceeds will not be sufficient, obtain the remainder of the Principal Amortization Release Amount or a Holdback Release Amount by liquidating Underlying Assets as directed by the Collateral Manager.

Collection Accounts

All Interest Proceeds will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the "Interest Collection Account"). All Principal Proceeds will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the "Principal Collection Account" and, together with the Interest Collection Account, the "Collection Accounts"). The Collection Accounts shall be maintained for the benefit of the Secured Parties and amounts on deposit therein will be available, together with investment earnings thereon, for application in

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the order of priority set forth above under "Description of the Notes—Priority of Payments." The Collateral Manager may designate a portion of the Interest Proceeds to be retained in the Interest Collection Account and not distributed on a Payment Date, in order to provide funds to pay Fixed Amounts due under Hedging Credit Default Swaps in the next Due Period.

Amounts received in the Collection Accounts during a Due Period and amounts received in prior Due Periods and retained in the Collection Accounts under the circumstances set forth above in "Description of the Notes—Priority of Payments" will be invested in Eligible Investments with stated maturities no later than the Business Day immediately preceding the next Distribution Date. All such proceeds will be retained in the Collection Accounts unless such proceeds are to be used by the Issuer to make payments due from the Issuer to the Swap Counterparty under the Total Return Swap, or payments under any Credit Default Swap or Hedging Credit Default Swap (other than Swap Termination Payments).

Payment Account

On or prior to the Business Day prior to each Distribution Date, the Trustee will deposit into a single, segregated account established and maintained by the Trustee under the Indenture (the "Payment Account") for the benefit of the Secured Parties all Interest Proceeds and Principal Proceeds received with respect to the related Due Period in the Collection Accounts received during the related Due Period required for payments to Noteholders and Preference Shareholders and payments of fees and expenses in accordance with the priority described under "Description of the Notes—Priority of Payments."

Expense Account

On the Closing Date, U.S.$150,000 from the proceeds of the Offering 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 clause (2) of the Interest Proceeds Waterfall, 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.$150,000. 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 and, on the final Distribution Date, to be transferred to the Payment Account and treated as Interest Proceeds. 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.

Counterparty Collateral Account

The Trustee shall deposit any collateral received from the Swap Counterparty under the Master Agreement with respect to the Credit Default Swaps, the Hedging Credit Default Swaps and the Total Return Swap in a securities account in the name of the Trustee that will be designated the "Counterparty Collateral Account" which will be maintained for the benefit of the Issuer and the Swap Counterparty. The Counterparty Collateral Account will have four subaccounts established by the Issuer: the "Swap Counterparty Premium Subaccount," the "Writedown Subaccount," the "Interest Shortfall Subaccount" and the "TRS Subaccount." The Trustee shall deposit into each such subaccount the applicable amount or security paid or delivered by the Swap Counterparty, and the Trustee shall apply amounts in the Counterparty Collateral Account to pay amounts due to the Issuer under the Credit Default Swaps, the

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Hedging Credit Default Swaps or the Total Return Swap or return such amounts to the Swap Counterparty, in each case as further set forth in "Security for the Notes—Master Agreement: Early Termination" and "Security for the Notes—The Credit Default Swaps—Retention of Writedown Amounts and Interest Shortfall Payment Amounts." Funds on deposit in the Counterparty Collateral Account shall be invested in accordance with the Master Agreement, and any amounts therein shall be distributed to the Swap Counterparty in accordance with the Master Agreement.

The Swap Counterparty shall be required to make deposits into the Counterparty Collateral Account in the amount and at the times specified in the Master Agreement. On each Fixed Rate Payer Payment Date, the Trustee shall transfer at the written direction of the Swap Counterparty the amount of the Fixed Amounts due on such date under any Credit Default Swap from the Swap Counterparty Premium Subaccount to the Interest Collection Account. The Swap Counterparty shall not pay any Fixed Amount for which sufficient funds are available in the Counterparty Collateral Account. On the first day of each Due Period any remaining funds in the Swap Counterparty Premium Subaccount shall be credited against the amount required to be posted in such subaccount by the Swap Counterparty on such date. On each Distribution Date, the Trustee shall transfer at the written direction of the Swap Counterparty from the TRS Subaccount the Total Return Swap LIBOR Payment due under the Total Return Swap Confirmation, and credit any remaining balance in the TRS Subaccount against the amount required to be posted by the Swap Counterparty in such subaccount on that date. The Trustee shall pay to the Swap Counterparty any amount due to it from the Counterparty Collateral Account in accordance with the Master Agreement and the Master Confirmation. On each Additional Fixed Amount Payment Date with respect to an Interest Shortfall Reimbursement Payment Amount, the Trustee shall transfer at the written direction of the Swap Counterparty the amount of the Interest Shortfall Reimbursement Amount due on such date under any Credit Default Swap from the Interest Shortfall Subaccount to the Interest Collection Account (and the Swap Counterparty shall not pay any such Additional Fixed Amounts for which sufficient funds are available in the Interest Shortfall Subaccount). On each Additional Fixed Amount Payment Date with respect to a Writedown, the Trustee shall transfer at the direction of the Swap Counterparty the amount of the Writedown Reimbursement Payment Amount due on such date under any Credit Default Swap from the Writedown Subaccount to the UA Collateral Subaccount or, on or after the Initial Redemption Date, the Principal Collection Account (and the Swap Counterparty shall not pay any such Additional Fixed Payments for which sufficient funds are available in the Writedown Subaccount).

On each Valuation Date, in the event that the Swap Counterparty (as valuation agent under the CSA) provides notice to the Collateral Manager that (i) there is a Delivery Amount owed by the Swap Counterparty to the Issuer under the CSA, the Collateral Manager, on behalf of the Issuer, shall, on the same Business Day, provide notice to the Swap Counterparty to transfer eligible credit support pursuant to the CSA equal to the Delivery Amount, or (ii) there is a Return Amount (as defined in the CSA) owed to the Swap Counterparty, the Collateral Manager shall provide notice to the Trustee to transfer such amount to the Swap Counterparty.

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, the Credit Default Swaps and the Hedging Credit Default Swaps. All Pledged Securities, Credit Default Swaps and Hedging Credit Default Swaps from time to time deposited in, or otherwise standing to the credit of, the Custodial Account pursuant to the Indenture will be held by the Trustee as part of the Collateral. The Co-Issuers shall not have any legal, equitable or beneficial interest in the Custodial Account other than in accordance with the Priority of Payments.

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THE UNDERLYING ASSETS

All information concerning the Underlying Assets or the issuer thereof is based upon publicly available sources, has not been independently checked or verified by the Initial Purchaser, the Placement Agent, the Swap Counterparty, the Collateral Manager or the Trustee and does not purport to be complete or to include all information which will be material to a prospective investor in the Offered Securities. This information has been accurately reproduced and as far as the Co-Issuers are aware and are able to ascertain, no facts have been omitted which would render this information inaccurate or misleading. Prospective purchasers of the Offered Securities should undertake their own investigation of the creditworthiness of the issuers of the Underlying Assets as well as the terms of the Underlying Assets. An investor in the Offered Securities should obtain and evaluate the Initial Underlying Assets Prospectus and the same information concerning the Underlying Assets as it would if it were investing directly in the Underlying Assets. A copy of the Initial Underlying Assets Prospectus may be obtained from the Trustee. The issuers of the Underlying Assets have not participated in the Offering or the preparation of this Offering Circular.

The "Initial Underlying Assets" will consist of the securities described in Schedule A hereto. The purchase price paid by the Issuer will be equal to U.S.$150,000,000. The terms of the Initial Underlying Assets, as of their issuance date, are set forth in the Offering Memorandum, dated March 30, 2005, of Duke Funding VIII, Ltd. and Duke Funding VIII, Corp. (the "Initial Underlying Assets Prospectus"). None of the Initial Purchaser, the Placement Agent, the Swap Counterparty, the Collateral Manager or the Issuer has verified the information contained in such Initial Underlying Assets Prospectus. Accrued interest on the Initial Underlying Assets is payable in arrears quarterly on the dates set forth in Schedule A hereto at the rate set forth on Schedule A hereto determined as described in the Initial Underlying Assets Prospectus. The maturity date of the Initial Underlying Assets is April 7, 2045 ("Initial Underlying Assets Maturity Date") which is subsequent to the Stated Maturity of the Notes. However, payments in respect of principal of the Initial Underlying Asset may be made earlier than the Initial Underlying Assets Maturity Date.

Subsequent to the Closing Date, the Issuer is expected to apply the principal payments on the Initial Underlying Assets and Deliverable Obligations and any Additional Fixed Amounts (other than in respect of Interest Shortfalls) paid by the Swap Counterparty under any Credit Default Swap (after payment of the Supersenior Funded Amount) to purchase Additional Underlying Assets that satisfy the Underlying Assets Criteria from a third party or the Swap Counterparty. If the purchase is made pursuant to the Total Return Swap, the purchase price of the Additional Underlying Assets will be the principal amount of such Underlying Assets. There can be no assurance that the market value of the Underlying Assets will be equal to the principal amount of the Underlying Assets. The Swap Counterparty will designate the Underlying Assets as principal under the Total Return Swap and not as agent, fiduciary or in any other capacity on behalf of the Issuer. Such purchases will be made without the approval of Noteholders or Preference Shareholders. This Offering Circular does not provide any information whatsoever with respect to such Additional Underlying Assets or with respect to any rights or obligations, legal, financial or otherwise, arising thereunder.

This Offering Circular does not provide detailed information with respect to the Underlying Assets or with respect to any rights or obligations, legal, financial or otherwise, arising thereunder. Any information concerning the Initial Underlying Assets or the issuer thereof that is set forth herein is based upon publicly available sources, has not been independently checked or verified by the Initial Purchaser, the Placement Agent, the Swap Counterparty, the Collateral Manager or the Trustee, and does not purport to be complete or to include all information which may be material to a prospective investor in the Offered Securities. Prospective purchasers of the Offered Securities are urged to undertake their own investigation of these and other matters relating to the Initial Underlying Assets.

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The Swap Counterparty may at any time elect to replace one or more Underlying Assets by proposing one or more Additional Underlying Assets having an aggregate TRS Outstanding Principal Amount equal to the aggregate TRS Outstanding Principal Amount of the Underlying Asset(s) being replaced. See "The Total Return Swap–Elective Replacement."

The Swap Counterparty may, at its own expense, obtain credit enhancement of any Underlying Asset by means of a financial guarantee (or similar insurance policy) or by means of a an Underlying Asset Custodial Receipt. See "The Total Return Swap–Credit Enhancement."

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THE TOTAL RETURN SWAP

MLI (the "Swap Counterparty") and the Issuer will enter into separate total return swap transactions under the Master Agreement (collectively, the "Total Return Swap") in respect of each Underlying Asset and UA Eligible Investment in the UA Collateral Subaccount, pursuant to which the Issuer will pay to the Swap Counterparty the Underlying Assets Interest Distribution with respect to each such Underlying Asset and UA Eligible Investment. On each Swap Counterparty TRS Payment Date, the Swap Counterparty will pay to the Issuer the Total Return Swap LIBOR Payment.

Investment of Amounts in the UA Collateral Subaccount. Additional Fixed Amounts and Relevant Determination Principal Adjustments received by the Issuer under the Credit Default Swaps and Deliverable Obligation Sales Proceeds and Deliverable Obligation Payments (in each case, not constituting Interest Proceeds) will, prior to the Initial Redemption Date, be deposited into the UA Collateral Subaccount. In the event that Additional Fixed Amounts, Relevant Determination Principal Adjustments, Deliverable Obligation Sales Proceeds and Deliverable Obligation Payments (in each case, not constituting Interest Proceeds) and UA Principal Payments on the Underlying Assets in the UA Collateral Subaccount exceed U.S.$100,000 (such event, a "Collateral Shortfall"), the Swap Counterparty may propose to the Issuer or the Issuer may propose to the Swap Counterparty that the TRS Outstanding Principal Amount of one or more Underlying Assets be increased or that all or a portion of one or more Underlying Assets be replaced by one or more Additional Underlying Assets meeting the Underlying Assets Criteria (a "Collateral Shortfall Replacement"). In the event that the Issuer and the Swap Counterparty cannot agree on such increase or replacement within three Business Days following such date (each such date, a "Collateral Shortfall Replacement Date"), the Swap Counterparty will have the right (in its sole discretion) to determine the Additional Underlying Asset(s) to be acquired by the Issuer in respect of such amounts in the UA Collateral Subaccount. Until such time as amounts in the UA Collateral Subaccount exceed U.S$100,000, such amounts will be invested in UA Eligible Investments.

Payment of Principal Amortization Release Amounts, Holdback Release Amounts, Floating Amounts and Physical Settlement Amounts. On each Distribution Date that there is a Principal Amortization Release Amount, the Issuer will propose to the Swap Counterparty for its approval the liquidation of one or more Underlying Assets in a principal amount or Certificate Balance equal to the Principal Amortization Release Amount. If the Issuer and the Swap Counterparty do not agree on the Underlying Assets to be liquidated, the Issuer will have the right to designate (in its sole discretion) those Underlying Assets to be so liquidated. Upon such liquidation, the TRS Outstanding Principal Amount of the transactions in respect of such Underlying Assets will be reduced by the principal amount or Certificate Balance of the Underlying Assets liquidated (each such amount, a "Principal Amortization Delivery").

On the Notice Delivery Period Expiration Redemption Date, the Issuer will propose to the Swap Counterparty for its approval the liquidation of one or more Underlying Assets in a principal amount or Certificate Balance equal to the Holdback Release Amount. If the Issuer and the Swap Counterparty do not agree on the Underlying Assets to be liquidated, the Issuer will have the right to designate (in its sole discretion) those Underlying Assets to be so liquidated. Upon such liquidation, the TRS Outstanding Principal Amount of the transactions in respect of such Underlying Assets will be reduced by the principal amount or Certificate Balance of the Underlying Assets liquidated (a "Holdback Release Delivery").

The Issuer will have the option to sell the Underlying Assets to the Swap Counterparty at par or to sell the Underlying Assets to a third party. If the assets are sold to a third party, the Issuer will pay to

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the Swap Counterparty the Final Total Return Amount, if positive, or the Swap Counterparty will pay to the Issuer the Final Total Return Amount, if negative.

In addition, following the occurrence of a Floating Amount Event (other than an Interest Shortfall) or a Credit Event in respect of an Unhedged Credit Default Swap and the determination of a Floating Amount or Physical Settlement Amount thereunder, on the related Floating Amount Payment Date or the Delivery Date, as applicable, the Issuer will deliver to the Swap Counterparty a principal amount or Certificate Balance of Underlying Asset(s) or portions thereof) designated by the Swap Counterparty, in its sole discretion, equal to such Floating Amount or Physical Settlement Amount. The Swap Counterparty will not make any payment for the Underlying Asset(s) (or portion(s) thereof) so delivered. Instead, the TRS Outstanding Principal Amount(s) of such Underlying Asset(s) will be reduced by the principal amount or Certificate Balance so delivered (each, a "Floating Amount Delivery" or a "Physical Settlement Delivery," as applicable).

If the Underlying Assets that the Issuer delivers in connection with a Principal Amortization Release Amount, Floating Amount, Physical Settlement Amount or Holdback Release Amount, as applicable, are not in denominations equal to such Principal Amortization Release Amount, Floating Amount, Physical Settlement Amount or Holdback Release Amount, as applicable, the Issuer will deliver Underlying Assets with a principal amount or Certificate Balance equal to such Principal Amortization Release Amount, Floating Amount, Physical Settlement Amount or Holdback Release Amount (as applicable), rounded down to the lowest permissible denomination of the Underlying Assets (provided that if the Floating Amount, Physical Settlement Amount, Principal Amortization Release Amount or Holdback Release Amount, as applicable, is less than the lowest permissible denomination, no Underlying Assets will be delivered) and pay any remaining portion (or all) of the Floating Amount, Physical Settlement Amount, Principal Amortization Release Amount or Holdback Release Amount, as applicable, by liquidating securities in the UA Collateral Subaccount at par (but only if such liquidation can be made at par), and paying the cash proceeds to the Swap Counterparty. If there remains any unpaid amount (a "Rounding Shortfall"), such Rounding Shortfall will be paid to the Swap Counterparty (1) by liquidating any securities in the UA Collateral Subaccount on the first date that such securities can be liquidated at par, (2) reducing any Final Total Return Amount or payment in connection with any Replacement payable by the Swap Counterparty under the Total Return Swap, (3) by increasing the principal amount or Certificate Balance of the Underlying Assets delivered by the Issuer to the Swap Counterparty pursuant to this sentence on any subsequent Distribution Date, Floating Rate Payer Payment Date or Delivery Date, as applicable or (4) by decreasing the principal amount or Certificate Balance of any Additional Underlying Assets delivered by the Swap Counterparty in connection with any Ratings Event. In any event, all Rounding Shortfalls will be delivered on early termination of the Total Return Swap. A Rounding Shortfall will not be considered an Event of Default under the Master Agreement.

Replacement of Underlying Assets Upon Occurrence of a Ratings Event. If at any time any Underlying Asset is not rated at least "AA-" by Standard & Poor's (any such occurrence, a "Ratings Event"), the Swap Counterparty may propose to the Issuer or the Issuer may propose to the Swap Counterparty that the Issuer enter into one or more total return swap transactions with respect to Additional Underlying Assets (i) rated at least "AA-" by Standard & Poor's that satisfy the Underlying Assets Criteria and (ii) having a TRS Outstanding Principal Amount equal to the TRS Outstanding Principal Amount of the Underlying Asset being replaced (a "Ratings Event Replacement"). If, however, there is no agreement as to such a replacement or increase within 30 Business Days following the occurrence of such Ratings Event (such date, in respect of such Ratings Event, a "Ratings Event Replacement Date"), the Swap Counterparty will have the right, in its sole discretion, to designate an Additional Underlying Asset that meets the Underlying Assets Criteria.

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Elective Replacement. The Swap Counterparty may at any time elect to replace one or more Underlying Assets by proposing one or more Additional Underlying Assets having an aggregate TRS Outstanding Principal Amount equal to the aggregate TRS Outstanding Principal Amount of the Underlying Asset(s) being replaced (any such replacement, an "Elective Replacement") by giving the Issuer at least two Business Days prior written notice specifying the effective date of such Elective Replacement (such date, an "Elective Replacement Date"). If, however, there is no agreement as to such replacement Additional Underlying Assets within two Business Days following such notice by the Swap Counterparty, the Swap Counterparty shall have the right, in its sole discretion, to designate a replacement Additional Underlying Asset which meets the Underlying Assets Criteria.

Replacement Procedures. With respect to any replacement, increase or reduction with respect to Underlying Assets (each, a "Replacement") in connection with any Floating Amount Delivery, Physical Settlement Delivery or Holdback Release Delivery, Principal Amortization Release Delivery or on any Collateral Shortfall Replacement, Ratings Event Replacement or Elective Replacement (the date of each such delivery or replacement, a "Replacement Date"), the following procedures will apply:

(i) If the Issuer so elects, the Swap Counterparty will purchase on the applicable Replacement Date all or a portion of the Underlying Asset(s) being replaced or reduced from the Issuer at par;

(ii) With respect to any Underlying Asset being replaced or reduced that the Issuer did not elect to sell to the Swap Counterparty as provided in clause (i) above, the TRS Calculation Agent shall determine the Final Price for such Underlying Asset in accordance with the procedures set forth in the definition thereof by requesting at least three firm bids, the Issuer will deliver such Underlying Asset (or replaced or reduced portion thereof) to the highest firm bidder against payment to it from such bidder, as provided under "Termination Date Payments and Deliveries" below, and the applicable party will pay the Final Total Return Amount with respect to such Underlying Asset (or replaced or reduced portion thereof) as specified in "Termination Date Payments and Deliveries" below; and

(iii) The replacement Underlying Asset shall have as of the effective date of the Replacement a principal amount equal to the principal amount or Certificate Balance of the Underlying Asset to be replaced thereby and the Swap Counterparty shall advance the portion of such purchase price (if any) consisting of accrued interest (to be repaid from Underlying Assets Interest Distributions).

Underlying Asset Withholding Event. If at any time the Underlying Assets Interest Distribution in respect of an Underlying Asset is less than would have been paid to a holder of such Underlying Asset had such payment not been reduced by Withheld Taxes (such event, an "Underlying Asset Withholding Event"), then the Swap Counterparty may elect to treat such event as an Optional Termination Event. See "Optional Termination" below.

Termination Date Payments and Deliveries. On the TRS Termination Date with respect to an Underlying Asset, except as provided below in connection with a Failed Delivery Event, in full satisfaction of any amounts due in respect of a termination of such Underlying Asset (in whole or in part) each party shall pay to the other the amounts accrued and unpaid through the TRS Termination Date with respect to the total return swap transactions related to such Underlying Asset (including any Final Total Return Amount); and, if on such TRS Termination Date, the TRS Outstanding Principal Amount of the total return swap transaction related to such Underlying Asset is a positive number, the Issuer shall deliver the Underlying Asset (or applicable portion thereof) as described in "Delivery of Underlying Asset" below.

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Payment of Final Total Return Amount. If on a TRS Termination Date, the TRS Outstanding Principal Amount of the total return swap transactions related to the Underlying Asset is a positive number, then on such TRS Termination Date, if the Final Total Return Amount is (i) positive, the Issuer will pay to the Swap Counterparty the Final Total Return Amount, and (ii) negative, the Swap Counterparty will pay to the Issuer the absolute value of such amount. Notwithstanding the foregoing, the Swap Counterparty shall not be required to pay the Final Total Return Amount on any TRS Termination Date until the Issuer confirms that it will deliver or cause the delivery of the Underlying Asset (or, in connection with any partial termination in connection with a Replacement, the portion thereof that is being terminated) in accordance with the requirements of the Total Return Swap and, if a Failed Delivery Event occurs, the Swap Counterparty may set off against its obligation to pay any Final Total Return Amount, any amounts it is owed in respect of any loss in connection with such event as provided in the Total Return Swap. If the highest bidder pays any accrued interest, the Issuer shall pay the amount thereof to the Swap Counterparty.

Delivery of Underlying Asset. If on a TRS Termination Date the TRS Outstanding Principal Amount of the Underlying Asset is a positive number, the Issuer shall on such TRS Termination Date deliver a principal amount of the Underlying Asset equal to the TRS Outstanding Principal Amount (or, in the case of a partial termination, the portion thereof being terminated) to the highest firm bidder for the Underlying Asset against payment to it from such bidder of an amount equal to the product of the Final Price and the TRS Outstanding Principal Amount of the Underlying Asset. If on the date of the delivery of the Underlying Asset against payment of the Final Price as provided above there is any accrued interest on the Underlying Asset, the highest bidder need not pay any additional amount in respect of any such accrued interest and the Issuer shall be deemed to have received payment for such interest through the Swap Counterparty's payment of the Total Return Swap LIBOR Payment. If the highest bidder pays any accrued interest, the Issuer shall pay the amount thereof to the Swap Counterparty.

If the Issuer fails to deliver the Underlying Asset as described above on the TRS Termination Date, such event shall constitute a "Failed Delivery Event," and the Issuer must pay to the Swap Counterparty an amount equal to the Swap Counterparty's loss in respect of such Failed Delivery Event, calculated in accordance with the terms of the Total Return Swap.

Optional Termination. The Swap Counterparty may give written notice to the Issuer in which it designates a TRS Termination Date in respect of an Underlying Asset (or, in the case of clause (ii), (iii) or (iv), all Underlying Assets) upon the occurrence of any of the following: (i) an Underlying Asset Withholding Event, (ii) a Voting Rights Event with respect to such Underlying Asset, (iii) a Credit Enhancement Event or (iv) if the Notional Amount, together with the aggregate principal amount or Certificate Balance of Deliverable Obligations in the DO Collateral Subaccount, is less than U.S.$30,000,000 (each of the events described in clauses (i) through (iv), inclusive, an "Optional Termination Event"). If any such Optional Termination Event occurs pursuant to clause (ii) or (iii) as a result of an error or omission by the Trustee, the Swap Counterparty shall have the right to designate a TRS Termination Date only with respect to the Underlying Asset subject to such Optional Termination Event. If, however, more than one such Optional Termination Event occurs as a result of an error or omission of the Trustee, the Swap Counterparty will have the right to designate a TRS Termination Date with respect to all Underlying Assets, unless the Trustee is replaced in accordance with the terms of the Indenture within 180 days following such Optional Termination Event. The Swap Counterparty must give any notice of an Optional Termination Event to the Issuer at least ten Business Days prior to the applicable TRS Termination Date; *provided* that only three Business Days notice will be required in connection with a Voting Rights Event.

Voting Rights. "Voting Rights" means, in respect of any Underlying Asset, any right of a holder of such Underlying Asset to exercise any voting rights with respect to such Underlying Asset or give any

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instructions or consent to any action or take any other action with respect to such Underlying Asset. Provided that no early TRS Termination Date in respect of an Underlying Asset has occurred, and performance would not contravene any law, rule or regulation, the Issuer shall promptly deliver (or arrange for the delivery of), to the Swap Counterparty or its designee, a copy of each notice and report delivered to it by the related issuer or any other person on behalf of such issuer or otherwise in connection with such Underlying Asset in relation to the Voting Rights in respect thereof.

If the Issuer, in its capacity as a holder of the related Underlying Asset or otherwise (including, without limitation, where the Issuer has a contractual or other right to direct the exercise of the Voting Rights in respect of such Underlying Asset), receives written notice or otherwise determines that a holder of such Underlying Asset is required or has been invited to exercise any Voting Rights, the Issuer shall, as soon as practicable, notify the Swap Counterparty or any designee designated by the Swap Counterparty by prior written notice to the Issuer (the "Swap Counterparty's Designee") to such effect. The Issuer shall exercise all Voting Rights in respect of the related Underlying Asset (or cause such Voting Rights to be exercised) in respect of such Underlying Asset solely in accordance with the instructions (if any) received by it from the Swap Counterparty or the Swap Counterparty's designee, *provided* that such instructions are given in a timely manner. The Issuer shall notify the Swap Counterparty or the Swap Counterparty's Designee (such notice, a "Voting Notice") whether it will (a "Positive Voting Notice") or will not (a "Negative Voting Notice") exercise (or cause to be exercised) any Voting Rights in respect of the related Underlying Asset in accordance with the instructions received by it from the Swap Counterparty or the Swap Counterparty's Designee within three Business Days of receipt by it of such instructions (the "Voting Notice Cut-off Date"). The Issuer shall not be required to exercise any Voting Rights in respect of the related Underlying Asset in the absence of instructions from the Swap Counterparty or the Swap Counterparty's Designee but it shall not be prevented from doing so. The Issuer shall not be required to take any action pursuant to the Swap Counterparty's or the Swap Counterparty's Designee's instructions that would, based on an opinion of competent counsel delivered to the Swap Counterparty, constitute a breach of any law or regulation applicable to the Issuer.

If, for any reason, the Issuer (i) issues a Negative Voting Notice; (ii) fails to issue a Voting Notice by or on the Voting Notice Cut-off Date; (iii) fails to exercise, or cause to be exercised, any Voting Rights in respect to the related Underlying Asset in accordance with the instructions received by it from the Swap Counterparty or its designee; or (iv) fails to notify the Swap Counterparty that any Voting Rights are exercisable with respect to the issuer of the related Underlying Asset (any such event, a "Voting Rights Event"), then the Swap Counterparty may, subject to the provisions contained in the Total Return Swap, without prejudice to any other rights and remedies of the Swap Counterparty in connection therewith, terminate the related or all of the Underlying Assets as described in "Termination Date Payments and Deliveries" above. If, however, performance by the Issuer would contravene any law, rule or regulation applicable to the Issuer, the Swap Counterparty may not designate a TRS Termination Date with respect to the Underlying Asset subject to such Voting Rights Event or any other Underlying Asset. It may, however, elect to replace such Underlying Asset by proposing one or more replacement Underlying Assets meeting the Underlying Assets Criteria that have an aggregate outstanding principal amount equal to the outstanding principal amount of the Underlying Asset being replaced, by giving the Issuer at least two Business Days prior written notice specifying the effective date of such replacement.

Credit Enhancement. The Swap Counterparty may, at its own expense, obtain credit enhancement of any Underlying Asset ("Credit Enhancement") by means of a financial guarantee (or similar insurance policy) or by means of a custodial receipt representing an interest in both the Underlying Assets and a policy or other type of credit enhancement, pursuant to which the entity providing the credit enhancement will guarantee certain payments of interest and principal on the Underlying Asset if and to the extent those payments are not made by the issuer of the Underlying Asset (an "Underlying Asset Custodial Receipt"), such that in either case either the Underlying Asset or the

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Underlying Asset Custodial Receipt has a rating, or a rating equivalent, which is no lower than the rating of the Underlying Asset on the date the Credit Enhancement is obtained.

The Issuer will agree under the Total Return Swap to cooperate, at the Swap Counterparty's expense, with any request of the Swap Counterparty in arranging for such Credit Enhancement, including if requested by the Swap Counterparty, by delivering, if the Issuer is the holder of the related Underlying Asset at such time, or, if the Issuer is not the holder of such Underlying Asset at such time and it is able and legally permitted to do so, by requesting the holder of such Underlying Asset to deliver such Underlying Asset in exchange for the delivery of the Underlying Asset Custodial Receipt.

If the Swap Counterparty is unable to arrange for Credit Enhancement of an Underlying Asset either because the Issuer does not reasonably cooperate with the Swap Counterparty or because the Issuer is unable to cause the delivery of such Underlying Asset in exchange for the delivery of an Underlying Asset Custodial Receipt (any such, a "Credit Enhancement Event"), the Swap Counterparty may, subject to the provisions contained in the Total Return Swap, without prejudice to any other rights and remedies of the Swap Counterpart in connection therewith, designate a TRS Termination Date with respect to the related or all of the Underlying Assets as described in "Termination Date Payments and Deliveries" above.

TRS Replacement Agreement. In the event that, as a result of the termination (in part or in whole) by the Swap Counterparty of the Total Return Swap, all or any portion of the Underlying Assets or UA Eligible Investments are not subject to the Total Return Swap, the Issuer and the Trustee will, at the direction of the Collateral Manager, enter into a TRS Replacement Agreement. There can be no assurance, however, that any TRS Replacement Agreement can be arranged or that the terms thereof will be acceptable to the Collateral Manager.

THE SUPERSENIOR SWAP

General. On the Closing Date, the Issuer will hold U.S.$150,000,000 principal amount of the Initial Underlying Assets, but will have credit exposure to a Reference Portfolio which, as of the Closing Date, is expected to have an aggregate Reference Obligation Notional Amount of U.S.$750,000,000. The U.S.$600,000,000 difference between these two amounts is the initial notional amount (the "Initial Supersenior Notional Amount") of the "supersenior" tranche of credit exposure under the portfolio of Credit Default Swaps. The Issuer will not issue securities to fund its exposure to this supersenior tranche of credit risk. Instead, the Issuer will enter into a swap (the "Supersenior Swap") with the Swap Counterparty under the Master Agreement, pursuant to which it will pay the Supersenior CDS Premium to the Swap Counterparty on each Distribution Date in exchange for the Swap Counterparty's assumption of such credit risk. The Swap Counterparty, at its option, may enter into a credit default swap with a third party institution (the "Supersenior Institution") under which the Swap Counterparty buys credit protection with respect to this supersenior tranche of credit risk. If the Swap Counterparty enters into such a credit default swap, it may agree to exercise certain of its rights under the Indenture, the Supersenior Swap or the Master Agreement only with the consent of such third party institution. In the event that the Swap Counterparty elects to enter into such credit default swap, the payments by the counterparty and the obligations of the counterparty thereunder will be for the sole benefit of the Swap Counterparty and will not affect in any way the Issuer's obligations to the Swap Counterparty under the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap or the Total Return Swap. If the Swap Counterparty's payments to the counterparty under such credit default swap are less than the Supersenior CDS Premium, the Swap Counterparty will not return the excess; if the Swap Counterparty's payments to such counterparty exceed the Supersenior CDS Premium, the Issuer will not be required to pay an additional amount to the Swap Counterparty under the Supersenior Swap.

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Pursuant to the Supersenior Swap, the Issuer will pay to the Swap Counterparty on each Payment Date the Supersenior CDS Premium. On any date on which the Aggregate Portfolio Loss Amount exceeds the Supersenior Threshold Amount, the Swap Counterparty will advance under the Supersenior Swap any Writedown Amount, Principal Shortfall Amount or Physical Settlement Amount payable by the Issuer to the Swap Counterparty under any Credit Default Swap. Once such a payment is made by the Swap Counterparty, any Additional Fixed Amounts (other than Interest Shortfall Reimbursement Amounts), Deliverable Obligation Sales Proceeds (other than any portion constituting Interest Proceeds) or Deliverable Obligation Payments (other than any portion constituting Interest Proceeds) received by the Issuer will be paid to the Swap Counterparty until the Issuer has reimbursed the Swap Counterparty for the amount of such payment. The amount paid by the Swap Counterparty and not reimbursed by the Issuer is the "Supersenior Funded Amount." The Issuer will pay to the Swap Counterparty interest on such Supersenior Funded Amount at a rate equal to LIBOR in effect from time to time plus 0.30% *per annum*, and the obligation of the Issuer to pay such interest shall be senior in priority to the obligations of the Issuer to pay principal and interest on the Notes; *provided* that on the Business Day following the Funded Amount Trigger Date, the Swap Counterparty will pay to the Issuer any interest received from the Issuer on the Supersenior Funded Amount which remains outstanding on the Funded Amount Trigger Date.

On and after the Physical Settlement Trigger Date, any Deliverable Obligation (or, on the Physical Settlement Trigger Date, a portion thereof) to be delivered by the Swap Counterparty to the Issuer under a Credit Default Swap (other than under a Credit Default Swap for which there is a Hedging Credit Default Swap) shall be delivered instead to the Swap Counterparty under the Supersenior Swap against payment of the Physical Settlement Amount by the Swap Counterparty under the Supersenior Swap. The Swap Counterparty will receive all of the proceeds of, and income on, Deliverable Obligations delivered under the Credit Default Swaps on or after the Physical Settlement Trigger Date. The amount due to the Issuer from the Swap Counterparty under the Supersenior Swap may be set off against the corresponding amount due from the Issuer under a Credit Default Swap.

The Structuring Fee will be payable to the Swap Counterparty pursuant to the Supersenior Swap in accordance with the Priority of Payments.

THE SWAP COUNTERPARTY

Certain information appearing in this section has been prepared by MLI and has not been independently verified by the Issuer, the Co-Issuer or any other party. Accordingly, notwithstanding anything to the contrary herein, none of the Issuer, the Co-Issuer or any such other party assumes any responsibility for the accuracy, completeness or applicability of such information.

Swap Counterparty

MLI is organized under the laws of England with its principal executive office located 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 obligations of MLI under the Master Agreement will be guaranteed by ML&Co. If the credit rating of ML&Co. is downgraded below the levels set forth in "Security for the Notes—Master Agreement: Early Termination" or "Security for the Notes—Retention of Writedown Amounts and Interest Shortfall Payment Amounts" herein, MLI will have to take one of the actions set forth in "Security for the Notes—Master Agreement: Early Termination" or "Security for the Notes—Retention of Writedown Amounts and Interest Shortfall Payment Amounts," as applicable.

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Description of the Guaranty

The payment obligations of the Swap Counterparty under the Master Agreement and all transactions thereunder are guaranteed by ML&Co. (the "Swap Guarantor"), pursuant to a Guaranty dated as of the Closing Date (the "Guaranty").

Swap Guarantor

ML&Co. is incorporated under the laws of the State of Delaware and has its principal executive office at 4 World Financial Center, 250 Vesey Street, 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. is listed on the New York Stock Exchange.

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. This website does not form part of the Prospectus for the purposes of the listing of the Notes on the Irish Stock Exchange. Investors may also read and copy any document filed at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. 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 other than exhibits specifically incorporated by reference) of any or all such documents so filed since January 1, 1999. 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 MANAGEMENT AGREEMENT

The following is a summary of the Collateral Management Agreement and is qualified in its entirety by reference to the Collateral Management Agreement. A copy of the Collateral Management Agreement may be obtained by prospective purchasers upon request in writing to the Initial Purchaser at the address set forth under "Available Information."

ACA Management will act as the Collateral Manager pursuant to the Collateral Management Agreement. The Collateral Manager is not obligated to pursue any particular investment strategy or opportunity with respect to the Collateral. The Issuer will not (i) enter into Credit Default Swaps or Hedging Credit Default Swaps for which ACA Management or any of its Affiliates is the ultimate obligor on the related Reference Obligation or (ii) invest in Eligible Investments for which ACA Management or any of its Affiliates is the ultimate obligor. The Issuer may, however, (i) enter into Credit Default Swaps or Hedging Credit Default Swaps the Reference Obligation of any of which is the obligation of correspondents or customers of ACA Management and its Affiliates or (ii) invest in Eligible Investments for which correspondents or customers of ACA Management and its Affiliates are the ultimate obligors.

Compensation, Indemnification and Expenses

As compensation for the performance of its obligations as Collateral Manager under the Collateral Management Agreement, the Collateral Manager will receive a fee, payable in arrears on each Distribution Date, equal to 0.15% *per annum* of the Management Fee Notional Amount, as of the first day of the related Due Period for such Distribution Date (the "Senior Collateral Management Fee"). The Collateral Manager will receive an additional fee, payable in arrears on each Quarterly Distribution Date,

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equal to 0.15% *per annum* of the Management Fee Notional Amount, as of the first day of the related Due Period for such Distribution Date (the "Subordinated Collateral Management Fee" and, together with the Senior Collateral Management Fee, the "Collateral Management Fee"). See "Description of the Notes—Priority of Payments."

The Collateral Management Fee will be payable only to the extent that funds are available for such purpose in accordance with the Priority of Payments. The Collateral Management Fee will be calculated based on the Management Fee Notional Amount as of the first day of the related Due Period preceding the applicable Distribution Date. The Senior Collateral Management Fee will be payable from Interest Proceeds prior to any payments on the Offered Securities and, if such amounts are insufficient, from Principal Proceeds prior to any payments on the Offered Securities. The Subordinated Collateral Management Fee will be payable from Interest Proceeds and, if such amounts are insufficient, from Principal Proceeds after (i) all payments required to be made on the Offered Securities prior to payment of such fee have been paid and (ii) the payment of the expenses of the Trustee and other expenses of the Issuer from such Interest Proceeds or Principal Proceeds, as applicable, have been made, in accordance with the Priority of Payments. To the extent not paid on any Distribution Date when due, any accrued Senior Collateral Management Fee or Subordinated Collateral Management Fee will be deferred and will be payable on subsequent Distribution Dates. Any accrued and unpaid Senior Collateral Management Fee or Subordinated Collateral Management Fee that is deferred due to the operation of the Priority of Payments will accrue interest for each Interest Period at a rate *per annum* equal to LIBOR as in effect for such Interest Period.

The Collateral Manager may, in its sole discretion, three Business Days prior to any Distribution Date, direct the Issuer and the Trustee that all or a portion of the Collateral Management Fees payable to it on such Distribution Date be deferred. Any such deferred Collateral Management Fees shall be paid on the next succeeding Distribution Date to the extent funds are available in accordance with the Priority of Payments and shall accrue no interest.

In the event that ACA Management resigns or is terminated as Collateral Manager and a successor Collateral Manager is appointed pursuant to the Collateral Management Agreement, ACA Management nonetheless will be entitled to receive payment of all unpaid Collateral Management Fees, including the Senior Collateral Management Fee and the Subordinated Collateral Management Fee, accrued through the effective date of the termination or resignation, to the extent that funds are available for that purpose in accordance with the Priority of Payments and such payments will rank *pari passu* with the Collateral Management Fees due to the successor collateral manager.

The Collateral Manager will be responsible for its own overhead and expenses incurred in the course of performing its obligations under the Collateral Management Agreement; *provided* that the Collateral Manager will be entitled to reimbursement for certain out-of-pocket expenses (including reasonable attorneys' fees), including expenses and costs incurred in effecting or directing entering into Credit Default Swaps and Hedging Credit Default Swaps, purchases and sales of Eligible Investments, sales of Deliverable Obligations, negotiating with the Swap Counterparty as to proposed modifications or waivers, taking action or advising the Trustee with respect to the Issuer's exercise of any rights or remedies in connection with the Credit Default Swaps, Hedging Credit Default Swaps, Eligible Investments and Deliverable Obligations, including in connection with a default or termination, participating in committees or other groups formed by creditors of the Swap Counterparty, purchasing and maintaining systems to analyze Credit Default Swaps and Hedging Credit Default Swaps, preparation of summary reports with respect to meeting the requirements of the Indenture and consulting with and providing Standard & Poor's with any information in connection with Standard & Poor's maintenance of the ratings of the Notes. Such expenses will constitute Administrative Expenses and will be paid or reimbursed by the Issuer in accordance with the Priority of Payments.

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The Collateral Manager will assume no responsibility under the Collateral Management Agreement other than to render the services called for from the Collateral Manager thereunder. The Collateral Manager will exercise the degree of skill and care consistent with industry standards for the management of a portfolio of credit default swaps and investments similar to the credit default swaps and investments described in this Offering Circular, and no less than that which the Collateral Manager customarily exercises with respect to credit default swaps entered into by it in accordance with its existing practices and procedures relating to assets of the nature and character of such assets, and will agree, in any event, to act in a prudent and commercially reasonable manner and in good faith in discharging its duties under the Collateral Management Agreement.

The Collateral Manager and its Affiliates will not be liable to the Co-Issuers, the Trustee, the Preference Share Paying Agent, the Noteholders, the Preference Shareholders, the Swap Counterparty, any Hedge Counterparty, the Initial Purchaser, the Placement Agent or any of their respective affiliates, partners, shareholders, officers, directors, employees, agents, accountants and attorneys for any losses incurred as a result of the actions taken or recommended by the Collateral Manager under the Collateral Management Agreement, the Master Agreement, the Supersenior Swap, the Total Return Swap, the Credit Default Swaps, the Hedging Credit Default Swaps, the Preference Share Documents or the Indenture, for any error of judgment, mistake of law or for any loss arising out of any investment, or for any other act or omission by the Collateral Manager in the performance of its obligations under the Collateral Management Agreement, the Master Agreement, the Supersenior Swap, the Total Return Swap, the Credit Default Swaps, the Hedging Credit Default Swaps, the Preference Share Documents or the Indenture, except for losses resulting from the Collateral Manager's bad faith, willful misconduct or gross negligence. The Collateral Manager and its affiliates and each of their respective employees, agents, accountants and attorneys will be entitled to indemnification by the Issuer for all expenses, losses, damages, liabilities, damages, charges and claims (including attorneys' fees) arising from the Collateral Manager's acts or omissions in the performance of the Collateral Manager's duties except for losses resulting from its bad faith, willful misconduct or gross negligence in the performance of the Collateral Manager's obligations. The Collateral Manager will indemnify the Issuer from and against any claims that are asserted against it by third parties and any damages, losses, claims, liabilities, costs or expenses (including all reasonable legal and other expenses) incurred as a direct consequence of the information concerning the Collateral Manager under the heading "The Collateral Manager" in this Offering Circular (except for the information under the sub-heading "General" herein) containing any untrue statement of material fact or omitting to state a material fact necessary in order to make the statements under such heading, in light of the circumstances under which they were made, not misleading.

Termination of the Collateral Management Agreement

The Collateral Manager may be removed for cause upon 15 days' prior written notice by (i) a vote of a Majority-in-Interest of Preference Shareholders or (ii) (a) holders of at least a majority, by Aggregate Outstanding Amount, of each Class of Notes (each voting as a separate Class and not as a single Class) and (b) the Swap Counterparty (in its capacity as swap counterparty under the Supersenior Swap). Collateral Manager Securities will be disregarded and deemed to be not outstanding for this purpose. For purposes of the Collateral Management Agreement, "cause" means any of the following events:

(i) the Collateral Manager willfully breaches, or takes any action that it actually knows violates, any provision of the Collateral Management Agreement or any term of the Indenture applicable to it (not including a willful breach or knowing violation that results from a good faith dispute on alternative courses of action or interpretation of instructions);

(ii) except as provided in clause (i), the Collateral Manager breaches in any material respect any provision of the Collateral Management Agreement or any terms of the Indenture

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applicable to it and fails to cure such breach within 30 days after notice of such failure is given to the Collateral Manager, or within 30 days after the Trustee or Issuer receives notice of such failure from the Collateral Manager pursuant to the Collateral Management Agreement, unless, if such failure is not capable of being cured within 30 days but is curable within 90 days, the Collateral Manager has taken action that the Collateral Manager in good faith believes will remedy, and that does in fact remedy, such failure within 90 days after notice of such failure being given to the Collateral Manager;

(iii) the Collateral Manager (A) ceases to be able to, or admits in writing its inability to, pay its debts when and as they become due, (B) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or takes advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (C) makes an assignment for the benefit of its creditors, (D) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property or (E) is adjudicated as insolvent or to be liquidated;

(iv) (A) the occurrence of an act by the Collateral Manager that is determined by a judicial, regulatory or administrative body or arbitrator to constitute fraud or criminal activity in the performance of its obligations under the Collateral Management Agreement or (B) the Collateral Manager, or any executive officer of the Collateral Manager who is primarily responsible for the administration of the Collateral, being indicted for a criminal felony offense materially related to the Collateral Manager's advisory services;

(v) an Event of Default under the Indenture other than (x) an Event of Default referred to in clause (v) of the definition thereof or (y) an Event of Default referred to in clause (iii), (iv), (vi) or (vii) of the definition thereof, unless such Event of Default arises from an act or omission of the Collateral Manager in the performance of its duties under the Collateral Management Agreement or the Indenture;

(vi) any representation or warranty made by the Collateral Manager in the Collateral Management Agreement or the Indenture is found to be incorrect in any material respect when made and the Collateral Manager fails to cause such representation or warranty to be correct in all material respects within 30 days after either (A) notice of such failure is given by the Issuer or the Trustee to the Collateral Manager or (B) the Collateral Manager notified the Trustee and the Issuer (pursuant to the Collateral Management Agreement) that such representation or warranty is not correct in all material respects; or

(vii) the Collateral Manager consolidates or amalgamates with, or merges into, or transfers all or substantially all of its assets to, another person and either (A) at the time of such consolidation, amalgamation, merger or transfer, the resulting, surviving or transferee Person fails to or cannot assume all the obligations of the Collateral Manager under the Collateral Management Agreement or (B) the resulting, surviving or transferee Person lacks the legal capacity to perform the obligations of the Collateral Manager under the Collateral Management Agreement and under the Indenture.

The Collateral Manager will notify the Issuer and the Trustee promptly upon the Collateral Manager's becoming aware of the occurrence of such event and the Trustee will in turn deliver such notice to the holders of all outstanding Notes and the Preference Shares. In no event will the Trustee be required to determine whether "cause" exists for the removal of the Collateral Manager.

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The Collateral Manager will have the right to resign and terminate the Collateral Management Agreement upon 90 days' (or such shorter period as agreed by the Collateral Manager and the Issuer) prior written notice to the Issuer and the Trustee. If any change in applicable law or regulation renders the performance by the Collateral Manager of its duties under the Indenture, the Collateral Management Agreement, the Master Agreement, the Supersenior Swap, the Total Return Swap, the Credit Default Swaps, the Hedging Credit Default Swaps or Preference Documents to be a violation of such law or regulation, then the Collateral Manager may resign upon 10 Business Days' notice to the Issuer.

The Collateral Manager may not assign its rights or responsibilities under the Collateral Management Agreement without the consent of the Swap Counterparty (in its capacity as Swap Counterparty under the Supersenior Swap), the Issuer or, if the Supersenior Swap is no longer in effect, a Majority of the Controlling Class (excluding Collateral Manager Securities) and unless the Successor Collateral Manager Conditions are satisfied, except that the Collateral Manager may assign all of its rights and responsibilities thereunder to an Affiliate without the consent of the Swap Counterparty, the Issuer, the Trustee or any Noteholder or holder of Preference Shares, so long as such assignment would not constitute an "assignment" not permitted under (or otherwise complies with) the Investment Advisers Act of 1940, as amended, such assignment will not cause the Issuer, the Co-Issuer or the pool of Collateral to be subject to net income or withholding tax that would not have been imposed except for such assignment and the Collateral Manager gives notice to each Rating Agency that such assignment has been made. The Collateral Management Agreement will terminate automatically in the event of its assignment by the Collateral Manager in violation of the Collateral Management Agreement.

No termination or resignation of the Collateral Manager will be effective unless a successor has assumed (by execution of a written instrument) all of the Collateral Manager's duties and obligations pursuant to the Collateral Management Agreement.

If the Collateral Manager is terminated for "cause" as described in clause (v) above, then the Swap Counterparty (in its capacity as counterparty under the Supersenior Swap), or if the Supersenior Swap is no longer in effect, a Majority of the Controlling Class (including Collateral Manager Securities), within 20 days after notice of termination is given by the Issuer, may designate a successor Collateral Manager, which successor will be appointed by the Issuer; *provided* that if no such designation has been made by such 20th day, the successor Collateral Manager shall be appointed pursuant to the next sentence. If the Collateral Manager is terminated for "cause" for any reason other than the circumstances described in clause (v) of the definition thereof, or resigns as Collateral Manager (*provided* that such resignation occurs prior to receipt by the Issuer of a direction to remove the Collateral Manager for "cause" as described in clause (v) above), then the Collateral Manager will be entitled to designate (within 20 days after it receives notice of termination or delivers notice of resignation, or within 10 days after the expiration of the deadline in the prior sentence, whichever is applicable) a successor Collateral Manager in a written notice to the Issuer and the Trustee (which shall promptly deliver a copy of such notice to the Swap Counterparty and to holders of each Class of Notes and Preference Shares), which shall be appointed by the Issuer unless the Swap Counterparty (in its capacity as counterparty under the Supersenior Swap) objects or, if the Supersenior Swap is no longer in effect, holders of at least a majority of the Aggregate Outstanding Amount of each Class of Notes (voting separately and including Collateral Manager Securities) and a Majority-in-Interest of Preference Shareholders (including Collateral Manager Securities) object, in writing within 20 days after notice is given by the Trustee to the Swap Counterparty, the Noteholders and the Preference Shareholders of the designation of a successor Collateral Manager. If the successor Collateral Manager proposed by the current Collateral Manager is rejected (x) by the Swap Counterparty (in its capacity as counterparty under the Supersenior Swap) or (y) if the Supersenior Swap is no longer in effect by a majority of the Aggregate Outstanding Amount of each Class of Notes (voting separately and including Collateral Manager Securities) and a Majority-in-Interest of Preference Shareholders (including Collateral Manager Securities), in accordance with the foregoing (or if the

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Collateral Manager has not designated a proposed successor by the deadline in the preceding sentence or has resigned after the Issuer received a direction to terminate the Collateral Manager for cause as described in clause (v) above), then a Majority-in-Interest of Preference Shareholders (including Collateral Manager Securities) may designate a successor Collateral Manager in a written notice to the Issuer and the Trustee (which shall promptly deliver a copy of such notice to the holders of the Offered Securities), which shall be appointed by the Issuer if the Swap Counterparty, or if the Supersenior Swap is no longer in effect, a majority of the Controlling Class, consents to the appointment of such successor Collateral Manager. Any successor Collateral Manager must be ready and able to assume the duties of the Collateral Manager within 50 days of the date of such notice of resignation or removal of the Collateral Manager. If no successor Collateral Manager has been appointed within 50 days of the date of notice of such resignation or removal or an instrument of acceptance by a successor Collateral Manager has not been delivered to the Collateral Manager within 50 days after appointment by the Issuer of the successor Collateral Manager and the notice of such appointment to the holders of the Notes and Preference Shares, the resigning or removed Collateral Manager, the Swap Counterparty (in its capacity as swap counterparty under the Supersenior Swap) or the Issuer may petition any court of competent jurisdiction for the appointment of a successor Collateral Manager without the approval of any holder of any Offered Security.

Subject to the preceding paragraph, upon any resignation or removal of the Collateral Manager, any successor to the Collateral Manager appointed by the Issuer will be an institution which (i) has demonstrated an ability to professionally and competently perform duties similar to those imposed upon the Collateral Manager, (ii) is legally qualified and has the capacity to act as Collateral Manager, (iii) will not cause the Issuer or the pool of Collateral to become required to register as an "investment company" under the provisions of the Investment Company Act, (iv) will not cause the Issuer or the Co-Issuer or the pool of Collateral to become subject to net income or withholding tax that would not have been imposed but for such appointment and (v) with respect to the appointment of which the Rating Condition has been satisfied (the "Successor Collateral Manager Conditions"). No compensation payable to a successor from payments on the Collateral will be greater than that which would have been paid to the Collateral Manager under the Collateral Management Agreement unless the Swap Counterparty (in its capacity as counterparty under the Supersenior Swap) and a majority, by Aggregate Outstanding Amount of holders of the Notes or, in the case of the Subordinated Collateral Management Fee, a Majority-in-Interest of Preference Shareholders (including, in each case, Collateral Manager Securities) consent to such compensation and unless the Rating Condition is satisfied with respect to such increase. Upon expiration of the applicable notice period with respect to termination specified in the Collateral Management Agreement, all authority and power of the Collateral Manager under the Collateral Management Agreement, whether with respect to the Credit Default Swaps, the Hedging Credit Default Swaps or otherwise, will automatically and without further action by any person pass to and be vested in the successor Collateral Manager. Notwithstanding the foregoing, the outgoing Collateral Manager will be entitled to any accrued and unpaid Collateral Management Fee earned by it prior to termination or resignation.

Pursuant to the Indenture, the Trustee is entitled to exercise the rights and remedies of the Issuer under the Collateral Management Agreement (a) upon the occurrence of an Event of Default until such time, if any, as such Event of Default is cured or waived, (b) upon the resignation, removal or termination of the Collateral Manager pursuant to the Collateral Management Agreement, or (c) upon a default in the performance, or breach, of any covenant, representation, warranty or other agreement of the Collateral Manager under the Collateral Management Agreement or in any certificate or writing delivered pursuant thereto or the existence of any circumstance or the occurrence of any event constituting "cause" if (i) holders of at least 25% in Aggregate Outstanding Amount of the Notes of any Class or 25% of the aggregate liquidation preference of the Preference Shares give notice of such default or breach to the

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Trustee and the Collateral Manager and (ii) such default or breach (if remediable) continues for a period of 30 days.

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THE COLLATERAL MANAGER

The information appearing in this section (other than the information contained under the subheading "General") has been prepared by the Collateral Manager and has not been independently verified by the Co-Issuers, the Initial Purchaser, the Placement Agent, the Trustee or any other Person. Accordingly, the Collateral Manager assumes the responsibility for the accuracy, completeness or applicability of such information.

General

Certain administrative and advisory functions with respect to the Collateral will be performed by the Collateral Manager under the Collateral Management Agreement to be entered into between the Issuer and the Collateral Manager (the "Collateral Management Agreement"). In accordance with the requirements set forth in the Indenture, and in accordance with restrictions and guidelines in the Collateral Management Agreement, the Collateral Manager will select the Reference Obligations in the Reference Portfolio and Eligible Investments, and the Collateral Manager will instruct the Trustee with respect to any Floating Amount Event or Credit Event with respect to the Credit Default Swaps and Hedging Credit Default Swaps, investment in Eligible Investments and sale of Deliverable Obligations. None of the Initial Purchaser, the Placement Agent or any of their respective affiliates will select any of the Reference Obligations for Credit Default Swaps and Hedging Credit Default Swaps to be entered into by the Issuer or Eligible Investments to be purchased by the Issuer. Pursuant to the terms of the Collateral Management Agreement, the Collateral Manager will monitor the Credit Default Swaps and Hedging Credit Default Swaps and provide the Issuer with certain information, as described below, with respect to the composition of the Reference Portfolio and the Deliverable Obligations, any Floating Amount Events, Credit Events or "events of default" or "termination events" under the Master Agreement.

The Indenture and the Collateral Management Agreement place significant restrictions on the Collateral Manager's ability to advise the Issuer to select Reference Obligations for inclusion in the Reference Portfolio or on the Collateral Manager's ability to advise the Issuer on hedging of existing Credit Default Swaps, and the Collateral Manager is subject to compliance with such restrictions. Accordingly, the Issuer may be unable to enter into Credit Default Swaps or Hedging Credit Default Swaps or to take other actions that the Collateral Manager might consider in the best interests of the Issuer and the Noteholders.

The Collateral Manager and its Affiliates may engage in other business and furnish investment management, advisory and other types of services to other clients the investment policies of which differ from those followed by the Collateral Manager on behalf of the Issuer, as required by the Indenture. The Collateral Manager may make recommendations to or effect transactions for such other clients which may differ from those effected with respect to the Credit Default Swaps or Hedging Credit Default Swaps. In addition, the Collateral Manager may, from time to time, cause or direct other funds or accounts managed by the Collateral Manager to buy or sell, or recommend to the account the buying or selling of, securities of the same or a different kind or class of the same issuer, as the Collateral Manager directs be added to the Reference Portfolio on behalf of the Issuer. See "Risk Factors—Conflicts of Interest Involving the Collateral Manager."

The duties and obligations of the Collateral Manager are solely those of the Collateral Manager and are not guaranteed by any Affiliate of the Collateral Manager. The Offered Securities do not represent an interest in or obligations of, and are not insured or guaranteed by the Collateral Manager or any of its Affiliates.

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The Collateral Manager and/or certain Affiliates of the Collateral Manager will acquire a portion of the Preference Shares on the Closing Date. The total aggregate amount of such investment will be equal to approximately 13.89% of the Preference Shares. The Collateral Manager will agree to hold 3,000 Preference Shares until the Preference Share Holding Termination Date. Neither the Collateral Manager nor any of its Affiliates is otherwise under any obligation to continue to hold or refrain from pledging such Preference Shares. In addition, the Collateral Manager, its Affiliates and accounts for which the Collateral Manager or any Affiliate thereof acts as investment adviser may at times own Notes of one or more Classes. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Offered Securities held by any of the Collateral Manager, its Affiliates and accounts for which the Collateral Manager or any Affiliate thereof acts as investment adviser (and for which the Collateral Manager or such Affiliate has discretionary authority) with respect to any assignment or termination of, any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any rights to remove such Collateral Manager or terminate the Collateral Management Agreement), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote Offered Securities held by them and by such accounts with respect to all other matters. See "Risk Factors—Conflicts of Interest Involving the Collateral Manager."

ACA Management, L.L.C., ACA Capital Holdings, Inc. and Affiliates

ACA Management, L.L.C. ("ACA Management"), a Delaware limited liability company formed on May 4, 2001 to provide asset management services to affiliated and non-affiliated investors, will act as collateral manager to the Issuer (in such capacity, together with any successor, the "Collateral Manager"). ACA Management is a wholly-owned subsidiary of ACA Risk Solutions, L.L.C. ("Risk Solutions"), the holding company for the structured finance businesses of ACA Capital Holdings, Inc. (f/k/a American Capital Access Holdings Limited) ("ACA Capital Holdings"), and Risk Solutions is wholly-owned by an intermediary U.S. based holding company, ACA Holdings, L.L.C., which in turn is wholly-owned by ACA Capital Holdings. As Collateral Manager, ACA Management will be responsible for certain investment advisory and administrative functions relating to the Credit Default Swaps, Hedging Credit Default Swaps, Deliverable Obligations, Eligible Investments and other assets included in the Collateral. The offices of ACA Management are located at 140 Broadway, 47th Floor, New York, New York 10005.

The Collateral Manager is registered as an "investment adviser" under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act").

ACA Capital Holdings' investors include Bear Stearns Merchant Banking, AEGON USA, Inc., BankAmerica Investment Corporation, GCC Investments, Inc., Insurance Partners, L.P., Keystone, Inc., Stephens Group, Inc., and Third Avenue Value Fund.

ACA Management is also affiliated with ACA Financial Guaranty Corporation ("ACA Guaranty"), a Maryland domiciled financial guarantor. The firm commenced operations in October 1997. ACA Guaranty is wholly-owned by an intermediary U.S. based holding company, ACA Holdings, L.L.C., which is wholly owned by ACA Capital Holdings. ACA Guaranty is licensed to provide financial guaranty insurance in all 50 states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico. As of June 30, 2005, ACA Guaranty had, on an unaudited basis, admitted assets of approximately $559.2 million, total liabilities of approximately $288.7 million, and total statutory capital of approximately $332.4 million, as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. Statutory capital consists of policyholders' surplus and statutory contingency reserve.

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Standard & Poor's has issued financial strength and financial enhancement ratings of "A" for ACA Guaranty.

The Standard & Poor's rating reflects Standard & Poor's' current assessment of the creditworthiness of ACA Guaranty and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the Standard & Poor's rating may be obtained only from Standard & Poor's. The Standard & Poor's rating is not a recommendation to buy, sell or hold any securities, and such rating may be subject to revision or withdrawal at any time by Standard & Poor's.

ACA Securities, L.L.C., another affiliate of ACA Management, is registered with and regulated as a broker-dealer by the SEC and the National Association of Securities Dealers. ACA Assurance, Ltd. and ACA Solutions, Ltd., each additional affiliates of ACA Management, are Bermuda entities which hold class 3 insurance licenses in Bermuda and are regulated by the Bermuda Monetary Authority.

ACA Capital Holdings and its subsidiaries are collectively referred to herein as "ACA Capital."

Biographies

Set forth below are the professional experiences of certain officers and employees of ACA Capital which are providing services to the Collateral Manager. Such persons may also serve as officers of the Collateral Manager and will provide services to the Collateral Manager in such capacities. Such persons may not necessarily continue to be so employed during the entire term of the Collateral Management Agreement or may not continue to perform services for the Collateral Manager under the Collateral Management Agreement.

Bill Tomljanovic is an Executive Vice President for ACA Capital and head of the Structured Finance Group.

Prior to joining ACA Capital, Mr. Tomljanovic was Director for Prudential Securities responsible for originating and structuring CDOs, focusing on various asset classes including credit derivatives, high yield bonds and loans, asset-backed securities and new products. Before joining Prudential Securities, Mr. Tomljanovic worked as an independent consultant to Greenwich Street Capital Partners and Salomon Smith Barney for the creation of a $500 million financial insurance company. From 1990-1999, Mr. Tomljanovic was with Capital Re Corporation holding various senior management positions. His most recent positions were Senior Vice President of Mortgage and Financial Lines and Vice President Global Underwriting and Special Projects. Mr. Tomljanovic was responsible for marketing and underwriting mortgage and non-traditional property and casualty products. He joined the company as an Assistant Vice President where he developed, constructed and analyzed structured finance transactions and new financial products. Mr. Tomljanovic was also Vice President and Treasurer responsible for directing corporate finance activities related to public offerings, the evaluation and execution of the company's investment portfolio strategy, coordinating rating agency relationships, directing corporate long term capital planning, tax strategy and annual financial forecasting and advising the CEO on strategic investment opportunities and potential acquisitions. Mr. Tomljanovic began his career at Chase Manhattan Bank as a Second Vice President, Corporate Accounting and Analysis/International Department.

Mr. Tomljanovic received his Bachelor's degree from Duquesne University and his MBA from Fordham University

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Nora J. Dahlman is a Managing Director and General Counsel for ACA Capital.

Prior to joining ACA Capital, Ms. Dahlman was First Vice President and Assistant General Counsel at Ambac providing legal representation with regards to structuring and negotiating asset backed transactions, synthetic lease transactions, MBS transactions and other structured transactions. Prior to joining Ambac, she was a Vice President and Attorney with Credit Lyonnais representing the broker-dealer in high-yield debt offerings, note programs and equity offerings, in addition to representing the commercial bank in securitization transactions, secured and unsecured lending transactions and other financing arrangements. Ms Dahlman has also worked in the capacity of Associate in the finance department of Haythe & Curley and in a similar capacity at Shearman and Stearling and Winthrop, Stimson, Putnam and Roberts where she began her career. Ms. Dahlman is admitted to the bars of the states of New York and Connecticut.

Ms. Dahlman received her B.A., *cum laude,* in Political Science from Gonzaga University, and received her J.D. from Vanderbilt Law School.

Joseph M. Pimbley is an Executive Vice President – Institutional Risk Management for ACA Capital. Dr. Pimbley is also responsible for monitoring and managing the firm's corporate credit risks exposures across the entire firm.

Dr. Pimbley was previously Senior Vice President, Credit Derivative Product Manager, for the capital markets subsidiary of the Sumitomo Mitsui Banking Corporation. His duties included business development, the construction of models for pricing and risk management, creation of necessary trading and operational systems and trade execution. Prior to joining Sumitomo, Dr. Pimbley served as Senior Risk Manager for GE Capital (at the Financial Guaranty Insurance Company subsidiary) where he was responsible for all risks in the firm's financial services for municipalities. In 1994, he was a senior analyst at Moody's Investors Service responsible for rating and rating research in structured notes, credit derivatives, collateralized loan obligations, special purpose vehicles, and similar "exotic" instruments and structured finance initiatives. From 1993 to 1994, he held the title of assistant vice president at Citibank where he was primarily responsible for computing the credit risk of all types of derivative transactions. Dr. Pimbley began his career as a physicist and electrical engineer at the GE Research & Development Laboratory from 1980 to 1987. In the period spanning 1987 to 1993, Dr. Pimbley served as an assistant professor of (applied) mathematics at Rensselaer Polytechnic Institute (RPI).

Dr. Pimbley earned the B.S., M.S. and Ph.D. degrees in theoretical physics from the Rensselaer Polytechnic Institute (RPI).

Laura Schwartz is a Managing Director and head of structured finance credit risk management.

Previously, Ms. Schwartz worked at Merrill Lynch as a Director in the Asset Backed Finance Group responsible for origination and execution of U.S. sub-prime residential mortgage backed securities and whole loan mortgage pool purchases. She was previously a Director in Merrill Lynch's Global Real Estate Finance Group responsible for origination and execution of commercial mortgage backed and residential mortgage backed securities outside of the United States with primary focus on Canada and Latin America. Ms. Schwartz began her career at New York Life Insurance Company as a senior analyst in the Commercial Mortgage Loans Group before becoming real estate vice president in the Mortgage Finance Group. Her last position there was as Managing Director in the Structured Finance Group, managing the public and private asset-backed and commercial mortgage backed securities portfolios. Ms. Schwartz has 20 years of experience in the fixed income markets.

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Ms. Schwartz received her B.A. *cum laude* in Political Science from the University of Michigan and an M.B.A. from New York University. She holds a CFA designation.

James Rothman is a Managing Director, head of Structured Credit Products and a member of the Collateral Committee.

Mr. Rothman manages banking, business development and marketing activities for the structured credit products group and participates as a voting member of the collateral committee. Prior to his current role, Mr. Rothman developed ACA's Senior structured credit business and also served as a credit analyst, covering mortgage and asset-backed securities and corporate credit.

From 2000-2001, Mr. Rothman was a Vice President at GE Capital Commercial Finance, responsible for the origination of trade accounts receivable securitization transactions. From 1998-2000, Mr. Rothman was a Director in the ABS Group of Deutsche Bank Securities, responsible for managing key customers and executing securitization transactions in the home equity and recreational vehicle sectors. From 1996-1998, he was a Vice President in PaineWebber's Asset Finance Group, responsible for managing securitized and whole loan transactions in multiple asset classes, including mortgages, home equity loans, subprime auto loans and trade accounts receivable. Prior to joining PaineWebber, Mr. Rothman was Vice President for Chase Manhattan Mortgage Corporation, responsible for managing a variety of structured mortgage transactions involving performing and non-performing residential mortgages.

A graduate of the University of Pennsylvania's Wharton School with a Bachelor of Science in Economics, Mr. Rothman holds a Masters degree in Public and Private Management from the Yale School of Management.

Ava Regal is a Vice President and Credit Analyst. She is responsible for student loan and CDO asset classes as well as analysis and credit approval for ACA Capital's asset management activities. Previously, Ms. Regal worked in the Credit Structured Products Group at Gen Re Securities working to expand Gen Re's capabilities into structured finance through proprietary and third party CDOs. Before joining Gen Re, she was an Investment Banking Analyst with Prudential Securities in the CDO Group where her responsibilities included marketing presentations to clients as well as assistance in deal execution.

Ms. Regal received her Bachelor's degree in Finance from Boston University.

Jeffrey Wyner is a Vice President in the Structured Finance Group of ACA Capital. As ACA Capital's commercial real estate specialist, he is responsible for assessment and investment in CMBS, REIT and other real estate related securities for ACA Capital financial products. Prior to joining ACA Capital, Mr. Wyner advised companies acquiring and financing real estate assets and securities. Before forming his advisory firm, Mr. Wyner was a Vice President at Lehman Brothers, Inc. where he provided CMBS deal management for the securitization of more than $15 billion of high yield and large loans. Prior to Lehman Brothers, he was a commercial real estate asset manager with GE Capital and a Senior Financial Analyst for a company of real estate joint venture partnerships held by Olympia & York, Inc. (USA). Mr. Wyner began his career working in architecture/ engineering firms providing urban planning and land development services for projects in the U.S. and overseas.

Mr. Wyner received his Bachelors degree in Natural Resources from the University of Michigan and an MBA from the Wharton School, University of Pennsylvania.

Keith Gorman is a Vice President in the Structured Finance Group of ACA Capital. He is responsible for assisting in residential analysis and portfolio management. Previously, Mr. Gorman was an analyst with

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Fitch Ratings, working on asset-backed securities including sub-prime mortgage, manufactured housing, and net interest margin transactions. He began his career as an analyst with Lewtan Technologies.

Mr. Gorman holds a B.S. as well as an M.A. in Economics from the University of Delaware.

Barbara Johnston is Operations Manager for the Structured Finance Group of ACA Capital. Ms. Johnston has 24 years of experience as an operations specialist and has recently been assigned as ACA Capital's Compliance Officer where she oversees registration of ACA Capital personnel and monitors all recordkeeping procedures.

Prior to joining ACA Capital, Ms. Johnston was an Operations Manager with REFCO Securities, LLC where she managed over 200 accounts for the S&D Division. Among her duties were ensuring timely settlement of all trades done for the division's clients as well as monitoring all of the cash and securities transactions in the clients' portfolios and ensuring that the accounts were in compliance with all NASD and SEC regulations. Before joining REFCO, Ms. Johnston was an Assistant Vice President with Sandler O'Neill and Partners, LP in the Fixed Income Division where she served as a liaison between the Investment Bank's client base and the firm's Correspondent Clearing agents. Prior to being hired by Sandler O'Neill and Partners, Ms. Johnston was a Correspondent Clearing Administrator with Mabon Securities and an Assistant Manager of Fixed Income Operations with Security Pacific National Trust Company.

Edward L. Santiago is a Vice President in the Structured Finance and Asset Backed Securities Credit Department of ACA Capital. His primary responsibility is mortgage credit analysis.

Prior to joining ACA Capital, Mr. Santiago was a Vice President at Chase Home Finance working on asset-backed securities of sub-prime mortgages. He also performed portfolio surveillance of manufactured housing loans and contracts, sub-prime mortgages originated or purchased whole-loan by Chase, and home equity lines-of-credit and loans held for investment. Transactions included a $4.2B whole-loan sale of manufactured housing loans and contracts.

Prior to Chase, Mr. Santiago worked at both Standard and Poor's and Moody's Investors service, for a combined period of seven years. During that time, he analyzed issuers, originators, servicers, trustees, and third party credit enhancers for structured securitizations. His rating agency experience includes the development of cash flow and loss coverage models used to analyze residential, credit card, auto, and home equity asset classes.

Mr. Santiago holds a Bachelor of Science degree from Long Island University with a dual-major in Integrated Information Systems and Marketing.

Tracy Van Voorhis is an Associate in the Structured Finance and Asset Backed Securities Credit Department of ACA Capital.

Prior to joining ACA Capital, Miss Van Voorhis worked at JPMorgan in CDO investor relations and more recently in U.S. asset-backed research covering Home Equity, Autos, Student Loans and Credit Cards.

Miss Van Voorhis completed her B.S. at Cornell University in Applied Resource Managerial Economics.

Lucas Westreich is responsible for Execution and Operation functions within the ABS and Corporate areas.

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Prior to joining ACA Capital, Mr. Westreich was an Economics Research Assistant at Boston University responsible for collecting data on international markets. Before joining the economics department. Mr. Westreich held an internship with a division of Carlin Equities. He was a trading floor assistant where his responsibilities included tracking equity positions and analyzing market trends.

Mr. Westreich received both his Bachelor's and Master's degree in Economics from Boston University. He graduated from the combined BA/MA program in four years.

Thomas Latronica is a Trading Floor Analyst in the Structured Finance and Asset Backed Securities Credit Department of ACA Capital.

Prior to joining ACA Capital, Mr. Latronica held an internship with a Connecticut based brokerage firm.

Mr. Latronica graduated from Sacred Heart University where he earned his B.S. in Business Administration.

Tamika Henderson is a Trading Floor Analyst in the Structured Finance and Asset Backed Securities Credit Department of ACA Capital.

Prior to joining ACA Capital, Mrs. Henderson held an internship with Prudential and EquiServe.

Mrs. Henderson graduated with honors from New York University where she earned her B.A. in Business Administration.

COLLATERAL ADMINISTRATION AGREEMENT

Pursuant to the terms of the Collateral Administration Agreement (the "Collateral Administration Agreement"), dated as of the Closing Date, between the Issuer and LaSalle Bank National Association (in such capacity, the "Collateral Administrator"), relating to certain functions performed by the Collateral Administrator for the Issuer with respect to the Indenture, the Credit Default Swaps and the Hedging Credit Default Swaps, the Issuer will retain the Collateral Administrator, to assist in the preparation of certain reports with respect to the Credit Default Swaps and the Hedging Credit Default Swaps. The compensation paid to the Collateral Administrator by the Issuer for such services will be in addition to the fees paid to LaSalle Bank National Association in its capacity as Trustee, will be treated as an expense of the Issuer under the Indenture and will be subject to the Priority of Payments.

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INCOME TAX CONSIDERATIONS

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

In General

The following summary describes the principal U.S. Federal income tax and Cayman Islands tax consequences of the purchase at initial issuance of the Offered Securities and the ownership and disposition of the Offered Securities. For purposes of this section, with respect to each Class of Notes, the first price at which a substantial amount of Notes of such Class is sold to investors is referred to herein as the "Issue Price". The summary does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase the Offered Securities. In particular, the summary does not address special tax considerations that may apply to certain types of taxpayers, including securities dealers, securities traders who account for their securities on a mark-to-market basis for tax purposes, banks, tax-exempt investors, insurance companies, regulated investment companies, subsequent purchasers of Offered Securities, persons that own (directly or indirectly) equity interests in holders of Offered Securities and holders that purchase the Notes for prices other than the respective Issue Prices of the Notes. In addition, this summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the U.S. Federal government and the Cayman Islands. In general, the summary assumes that a holder acquires Offered Securities at original issuance and holds such Offered Securities as a capital asset and not as part of a hedge, a straddle or a conversion transaction within the meaning of Section 1258 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), a constructive sale transaction within the meaning of Section 1259 of the Code or an integrated transaction. The summary is based on United States and Cayman Islands tax laws, regulations, rulings and decisions in effect or available on the date of this Offering Circular. All of the foregoing are subject to change, which change may apply retroactively and could affect the continued validity of the summary.

This summary is included herein for general information only and there can be no assurance that the tax consequences of an investment in the Offered Securities will be favorable or that such consequences will be as described herein.

As used in this section, the term "U.S. holder" means a beneficial owner of an Offered Security who is (i) a citizen or resident of the United States, (ii) an entity taxable as a corporation for U.S. Federal income tax purposes, which is created or organized in or under the laws of the United States, any state therein or the District of Columbia, (iii) an estate (other than a foreign estate defined in Section 7701(a)(31)(A) of the Code) or (iv) a trust if a court within the United States is able to exercise primary supervision over such trust's administration and one or more U.S. persons have the authority to control all substantial decisions of such trust and certain other trusts that were in existence on August 20, 1996 and that elect to continue to be treated as U.S. persons. The term "non-U.S. holder" means a beneficial owner of an Offered Security who is not a U.S. holder.

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U.S. persons and non-U.S. persons who own an interest in a holder which is treated as a pass-through entity under the Code will generally receive the same tax treatment, with respect to the material tax consequences of their indirect ownership of the Offered Securities, as is described herein for direct U.S. holders and non-U.S. holders, respectively. Nonetheless, such persons should consult their tax advisors with respect to their particular circumstances, including for issues related to tax elections and information reporting requirements.

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

For U.S. Federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the issuer of the Notes.

U.S. Federal Tax Considerations

Tax Treatment of the Issuer

Schulte Roth & Zabel LLP, special U.S. Federal income tax counsel to the Issuer, will provide the Issuer with an opinion of counsel to the effect that, although there is no direct authority, the Issuer will not be engaged in a trade or business within the United States for Federal income tax purposes, and accordingly, the Issuer will not be subject to Federal income tax in the United States on its net income or to the branch profits tax. This opinion will be based on certain assumptions regarding the Issuer, including the Issuer's and the Collateral Manager's compliance with the Indenture and the Collateral Management Agreement. Prospective investors should be aware that an opinion of counsel is not binding on the U.S. Internal Revenue Service ("IRS") or the courts, and that no ruling will be sought from the IRS regarding the U.S. Federal income tax treatment of the Issuer. Accordingly, there can be no assurance that the IRS or a court will agree with the opinion of Schulte Roth & Zabel LLP. It is also possible that the IRS could treat the Issuer as engaged in a trade or business in the United States by reason of the Issuer's selling credit protection under the Credit Default Swaps if the Issuer were deemed to be guaranteeing obligations from within the United States or insuring risks from within the United States. If the Issuer should be treated as engaged in a trade or business in the United States, the Issuer would be potentially subject to substantial U.S. Federal income taxes. The imposition of such taxes would materially affect the Issuer's financial ability to make payments of principal of and interest on the Notes or payments on the Preference Shares.

Although the Issuer is generally not intended to be subject to U.S. Federal income tax on its net income, certain income derived by the Issuer may be subject to withholding taxes imposed by the United States or other countries. It is not expected that the Issuer will derive material amounts of income that would be subject to United States withholding taxes.

Tax Treatment of U.S. Holders of the Notes

Status of the Notes. Upon the issuance of the Notes, Schulte Roth & Zabel LLP will deliver an opinion that, although there is no direct authority, the Notes will be characterized as debt for U.S. Federal income tax purposes. Such opinion will assume compliance with the Indenture and other related documents. Investors should be aware that such opinion of counsel is not binding on the IRS or the courts. The Issuer will agree and, by their purchase of the Notes, holders and beneficial owners of the Notes will be deemed to have agreed, to treat such Notes as debt for U.S. Federal income tax purposes.

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Interest, Discount or Premium on the Notes. In general, a U.S. holder of a debt instrument is required to include payments of qualified stated interest (*i.e.*, interest which is unconditionally payable at least annually at a single fixed rate or at a floating rate that meets certain requirements) received thereon, in accordance with such holder's method of accounting, as ordinary interest income. If, however, the issue price of the debt instrument is less than the "stated redemption price at maturity" of such debt instrument by more than a *de minimis* amount, a U.S. holder will be considered to have purchased such debt instrument with original issue discount ("OID"). The "Stated Redemption Price at Maturity" is the sum of all payments to be received on the debt instrument other than payments of qualified stated interest. If a U.S. holder acquires a debt instrument with OID, then, regardless of such holder's method of accounting, the holder will be required to accrue OID on a constant yield basis and include such accruals in gross income.

It is not anticipated that the Class A Notes or the Class B Notes will be issued with OID. Therefore, U.S. holders of the Class A Notes or the Class B Notes will include stated interest thereon as ordinary interest income generally from sources outside the United States, in accordance with their method of accounting. Because interest payments could in certain situations be deferred on the Class C Notes and the Class D Notes, all interest payable on such Notes and any discount attributable to the difference between the Issue Price and the stated principal amount of such Notes will be treated as OID. U.S. holders of such Notes will be required to accrue and include in gross income the sum of "daily portions" of total OID on a Class C Note or a Class D Note, as interest generally from sources outside the United States, for each day during the taxable year on which the U.S. holder held such Note, generally under a constant yield method, regardless of such U.S. holder's usual method of tax accounting and without regard to the timing of actual payments on such Note. The application of the OID rules to instruments such as the Notes is not entirely settled. The Issuer intends to accrue OID attributable to stated interest on such Notes over the entire term of such Notes with respect to the remaining principal amount thereof and any remaining discount through the period ending on September 20, 2009, the non-call period. In accordance with this method, U.S. holders of the Class C Notes and the Class D Notes may be required to include in gross income increasingly greater amounts of OID and may be required to include OID in advance of the receipt of cash attributable to such income. Other methods of accruing OID on the Class C Notes or the Class D Notes may be accepted by the IRS or a court and U.S. holders should consult their own tax advisor regarding any other acceptable methodology in reporting such income.

Because the Class C Notes and the Class D Notes provide for a floating rate of interest, the amount of OID to be accrued over the term of such Notes will be based initially on the assumption that the floating rate in effect for the first accrual period of such Notes will remain constant throughout their term. To the extent such rate varies with respect to any accrual period, such variation shall be reflected in an increase or decrease of the amount of OID accrued for such period. In addition, the accrual of OID on the Class C Notes or the Class D Notes may be subject to special rules that apply to debt instruments, the payments on which may be accelerated by reason of prepayments of obligations securing such debt instruments, which require the use of a prepayment assumption. As a result of the complexity of the OID rules, each U.S. holder of a Class C Note or a Class D Note should consult its own tax advisor regarding the impact of the OID rules on its investment in such Note.

Sale, Exchange and Retirement of the Notes. In general, a U.S. holder of a Note will have a basis in such Note equal to the cost of such Note to such holder increased by the amount of accrued OID, if any, and reduced by (i) any amortized premium applied to reduce, or allowed as a deduction against, interest on such Note and (ii) any payments other than payments of qualified stated interest on such Note. Upon a sale, exchange or retirement of a Note, a U.S. holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued interest, which would be taxable as such) and the holder's adjusted tax basis in such Note. Generally, such gain or

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loss will be long-term capital gain or loss if the U.S. holder held the Note for more than one year at the time of disposition. Gain recognized by a U.S. holder on the sale, exchange or retirement of a Note generally will be treated as from sources within the United States.

Tax Treatment of U.S. Holders of Preference Shares

The following discussion regarding the tax treatment of an investment in Preference Shares is intended to apply to U.S. Holders of such Preference Shares.

Investment in a Passive Foreign Investment Company. The Preference Shares will constitute equity interests in the Issuer for U.S. Federal income tax purposes. In addition, the Issuer will constitute a "passive foreign investment company" (a "PFIC"). Accordingly, U.S. holders of Preference Shares will be considered U.S. shareholders in a PFIC. In general, to avoid certain adverse tax rules (described below) that apply to deferred income from a PFIC, a U.S. holder may desire to make an election to treat the Issuer as a "qualified electing fund" (a "QEF") with respect to such holder. Generally, a QEF election should be made on or before the due date for filing a U.S. holder's U.S. Federal income tax return for the first taxable year for which such U.S. holder held Preference Shares. An electing U.S. holder will be required to include in gross income such holder's *pro rata* share of the Issuer's ordinary earnings and to include as long-term capital gain such holder's *pro rata* share of the Issuer's net capital gain, whether or not distributed, assuming that the Issuer does not constitute a "controlled foreign corporation" in which the shareholder is a "U.S. Shareholder" (as defined below), as discussed below. A U.S. holder will not be eligible for the preferential income tax rate on qualified dividend income or the dividends received deduction in respect of such income or gain. In addition, any losses (including any losses arising from credit event payments made by the Issuer under any Credit Default Swap, which losses may be substantial) of the Issuer in a taxable year will not be available to such U.S. holder. In certain cases in which a QEF does not distribute all of its earnings in a taxable year, U.S. holders of Preference Shares may also be permitted to elect generally to defer payment of the taxes on the QEF's undistributed earnings until such amounts are distributed or the Preference Shares are disposed of, subject to an interest charge on the deferred amount.

The Issuer will provide all information that a U.S. holder of Preference Shares making a QEF election is required to obtain for U.S. Federal income tax purposes (*e.g.*, the U.S. holder's *pro rata* share of ordinary income and net capital gain) and will provide a "PFIC Annual Information Statement" as described in U.S. Treasury Regulations, including all representations and statements required by such statement, and will take other reasonable steps to facilitate such election.

If a U.S. holder of Preference Shares does not make a timely QEF election and the PFIC rules are otherwise applicable, a U.S. holder would be required to report any gain on disposition of any Preference Shares as ordinary income and to compute the tax liability on such gain and certain "excess distributions" as if the items had been earned ratably over each day in the U.S. holder's holding period for the Preference Shares and would be subject to the highest ordinary income tax rate for each prior taxable year in which the items were treated as having been earned, regardless of the rate otherwise applicable to the U.S. holder. Such U.S. holder would also be liable for an additional tax equal to interest on the tax liability attributable to such income allocated to prior years as if such liability had been due with respect to each such prior year. For purposes of these rules, gifts, bequests or exchanges pursuant to corporate reorganizations and use of the Preference Shares as security for a loan may be treated as a taxable disposition. An "excess distribution" is the amount by which distributions during a taxable year in respect of a Preference Share exceed 125 percent of the average amount of distributions in respect thereof during the three preceding taxable years (or, if shorter, the U.S. holder's holding period for the Preference Share). In addition, a stepped-up basis in the Preference Shares upon the death of an individual U.S. holder may not be available.

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The Swap Counterparty and the Issuer have agreed to treat (a) the Credit Default Swaps as a series of annually settled contingent put options issued to the Swap Counterparty by the Issuer, (b) the Hedging Credit Default Swaps as a series of annually settled contingent put options issued to the Issuer by the Swap Counterparty, (c) the Supersenior Swap as consisting of a series of annually settled contingent put options issued by the Swap Counterparty to the Issuer and possibly a financing in respect of a portion of the Supersenior Funded Amount on which the Issuer pays interest to the Swap Counterparty, which interest is not reimbursed, and (d) the total return swaps as notional principal contracts. However, because of the Issuer's and the Swap Counterparty's rights under the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Total Return Swap, it is possible that the IRS could recharacterize the Credit Default Swaps, the Hedging Credit Default Swaps, the Supersenior Swap and the Total Return Swap as other than the parties' agreed treatment of the same, including treating the Issuer as purchasing a credit linked note issued by the Swap Counterparty. Any such recharacterization, if successful, could alter the timing or character of the Issuer's income and deductions that could affect U.S. holders of the Preference Shares. Prospective U.S. holders of Preference Shares should consult with their tax advisors as to the consequences of such possible recharacterization.

U.S. HOLDERS OF PREFERENCE SHARES SHOULD CONSIDER CAREFULLY WHETHER TO MAKE A QEF ELECTION WITH RESPECT TO THE PREFERENCE SHARES AND THE CONSEQUENCES OF NOT MAKING SUCH AN ELECTION.

Investment in a Controlled Foreign Corporation. Depending on the degree of ownership of the equity interests in the Issuer by "U.S. Shareholders" (as defined below), the Issuer may constitute a controlled foreign corporation (a "CFC"). In general, a foreign corporation will constitute a CFC if more than 50% of the shares of the corporation, measured by reference to combined voting power or value, are held, directly or indirectly, by U.S. Shareholders. A "U.S. Shareholder," for this purpose, is any person that is a U.S. person for U.S. Federal income tax purposes that possesses (actually or constructively) 10% or more of the combined voting power of all classes of shares of a corporation (persons who own interests in a U.S. pass-through entity which is a U.S. Shareholder will also be subject to the CFC rules described below). It is possible that the IRS would assert that the Preference Shares are voting securities and that U.S. holders possessing 10% or more of the combined voting power of the Preference Shares are U.S. Shareholders for purposes of the CFC rules. If this argument were successful and more than 50% of such interests were held by such U.S. Shareholders, the Issuer would be treated as a CFC.

If the Issuer should constitute a CFC, each U.S. Shareholder of the Issuer would be treated, subject to certain exceptions, as receiving ordinary income at the end of the taxable year of the Issuer in an amount equal to that person's *pro rata* share of the "subpart F income" and certain other income of the Issuer. Among other items, and subject to certain exceptions, "subpart F income" includes dividends, interest, annuities, gains from the sale of shares and securities, certain gains from commodities transactions, certain types of insurance income and income from certain transactions with related parties. It is likely that predominantly all of the Issuer's income would be subpart F income. If more than 70% of the Issuer's gross income is subpart F income in any year, 100% of its income in such year would be treated as subpart F income. Prospective purchasers of the Preference Shares should be aware that such income of the Issuer may significantly exceed the Issuer's distributions on the Preference Shares for one or more periods, and that a U.S. Shareholder may owe tax on significant amounts of "phantom income."

If the Issuer should be treated as a CFC, a U.S. Shareholder of the Issuer would be taxable on the subpart F income of the Issuer under the rules applicable to a CFC described in the preceding paragraph and not under the PFIC rules previously described. As a result, to the extent subpart F income of the Issuer includes net capital gains, such gains will be treated as ordinary income of the U.S. Shareholder under the CFC rules, notwithstanding the fact that the character of such gains generally would otherwise be preserved under the PFIC rules if a QEF election had been made.

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Distributions on Preference Shares. The treatment of actual distributions of cash on the Preference Shares, in very general terms, will vary depending on whether a U.S. holder has made a timely QEF election as described above. See "—Investment in a Passive Foreign Investment Company." If a timely QEF election has been made, distributions should be allocated first to amounts previously taxed pursuant to the QEF election (or pursuant to the CFC rules, if applicable) and to this extent would not be taxable to U.S. holders. Distributions in excess of such previously taxed amounts will generally be treated first as a nontaxable return of capital and then as capital gain.

In the event that a U.S. holder does not make a timely QEF election, then, except to the extent that distributions may be attributable to amounts previously taxed pursuant to the CFC rules, some or all of any distributions with respect to the Preference Shares may constitute excess distributions, taxable as previously described. See "—Investment in a Passive Foreign Investment Company."

Sale, Redemption or Other Disposition of Preference Shares. In general, a U.S. holder of a Preference Share will recognize gain or loss upon the sale or other disposition of a Preference Share equal to the difference between the amount realized and such holder's adjusted tax basis in the Preference Share. If a U.S. holder has made a timely QEF election as described above, such gain or loss will be long-term capital gain or loss if the U.S. holder held the Preference Shares for more than 12 months at the time of the disposition.

Initially, the tax basis of a U.S. holder should equal the amount paid for a Preference Share. Such basis will be increased by amounts taxable to such holder by virtue of a QEF election, the CFC rules and decreased by actual distributions from the Issuer that are deemed to consist of such previously taxed amounts or are treated as nontaxable returns of capital (as described above).

If a U.S. holder does not make a timely QEF election as described above, any gain realized on the sale or other disposition of a Preference Share will be subject to an interest charge and taxed as ordinary income under the special tax rules described above. See "—Investment in a Passive Foreign Investment Company."

If the Issuer is treated as a CFC and a U.S. holder is treated as a "U.S. Shareholder" therein, then any gain realized by such holder upon the disposition of Preference Shares will be treated as ordinary income to the extent of the current and accumulated earnings and profits of the Issuer. In this respect, earnings and profits would not include any amounts previously taxed pursuant to a timely QEF election or pursuant to the CFC rules.

Transfer and Other Reporting Requirements. U.S. holders of the Preference Shares will generally be required to report to the IRS on Form 926 certain information relating to such holders' purchase of the Preference Shares at initial issuance. **In the event a U.S. holder fails to file any such required form, the U.S. holder could be subject to a penalty equal to 10% of the gross amount paid for the Preference Shares subject to a maximum penalty equal to $100,000 (except in cases of intentional disregard).** U.S. holders of Preference Shares are urged to consult with their own tax advisers regarding these reporting requirements and any other reporting requirements, such as an IRS Form 5471, which may apply to such holders.

Tax-Exempt Investors. Special considerations apply to pension plans and other investors ("Tax-Exempt Investors") that are subject to tax only on their unrelated business taxable income ("UBTI"). A Tax-Exempt Investor's income from an investment in the Offered Securities generally will not be treated as resulting in UBTI, so long as such investor's acquisition of Offered Securities is not debt-financed. A Tax-Exempt Investor that owns more than 50% of the equity of the Issuer and also owns Notes treated as debt should consider the application of the special UBTI rules for interest received from controlled

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entities. Tax-Exempt Investors should consult their own tax advisers regarding an investment in the Offered Securities.

Tax Treatment of Non-U.S. Holders of Notes or Preference Shares

Subject to the discussion below regarding "backup withholding," a non-U.S. holder of the Offered Securities will be exempt from any U.S. Federal income or withholding taxes with respect to gain derived from the sale, exchange, or redemption of, or any distributions received in respect of, Offered Securities of the Issuer, unless such gain or distributions are effectively connected with a U.S. trade or business of such holder, or, in the case of a gain, such holder is a nonresident alien individual who holds the Offered Securities as a capital asset and who is present in the United States for 183 days or more in the taxable year of the disposition, and certain other conditions are satisfied.

Information Reporting and Backup Withholding

Under certain circumstances, the Code requires information reporting annually to the IRS and to each holder, and "backup withholding" with respect to certain payments made on or with respect to the Offered Securities. These requirements generally do not apply with respect to certain holders, including corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts. Backup withholding will apply to a U.S. holder only if the U.S. holder (i) fails to furnish its Taxpayer Identification Number ("TIN"), which for an individual would be his or her Social Security Number, (ii) furnishes an incorrect TIN, (iii) is notified by the IRS that it has failed to properly report payments of interest and dividends or (iv) under certain circumstances, fails to certify, under penalty of perjury, that it has furnished a correct TIN. The application for exemption is available by providing a properly completed IRS Form W-9. Each U.S. holder agrees that by such holder's or beneficial owner's acceptance of an Offered Security or an interest therein that such holder or beneficial owner will provide (or cause to be provided) to the Issuer (or the Trustee on behalf of the Issuer) or other applicable withholding agent a properly completed IRS Form W-9 signed under penalties of perjury.

A non-U.S. holder that provides the applicable IRS Form W-8BEN, IRS Form W-8IMY or other applicable form, together with all appropriate attachments, signed under penalties of perjury, identifying the non-U.S. holder and stating that the non-U.S. holder is not a United States person will not be subject to the IRS reporting requirements relating to backup withholding and U.S. backup withholding. In addition, IRS Form W-8BEN or other applicable form will be required from the beneficial owners of interests in a non-U.S. holder that is treated as a partnership (or as a trust of certain types) for U.S. Federal income tax purposes. Each non-U.S. holder agrees that by such holder's or beneficial owner's acceptance of a Note or an interest therein that such holder or beneficial owner will provide (or cause to be provided) to the Issuer (or the Trustee on behalf of the Issuer) or other applicable withholding agent a properly completed IRS Form W-8BEN, W-8IMY or other applicable form signed under penalties of perjury.

The payment of the proceeds on the disposition of an Offered Security by a holder to or through the U.S. office of a broker generally will be subject to information reporting and backup withholding unless the holder either certifies its status as a non-U.S. holder under penalties of perjury on the applicable IRS Form W-8BEN, IRS Form W-8IMY or other applicable form (as described above) or otherwise establishes an exemption. The payment of the proceeds on the disposition of an Offered Security by a non-U.S. holder to or through a non-U.S. office of a non-U.S. broker will not be subject to backup withholding or information reporting unless the non-U.S. broker is a "U.S. Related Person." The payment of proceeds on the disposition of an Offered Security by a non-U.S. holder to or through a non-U.S. office of a U.S. broker or a U.S. Related Person generally will not be subject to backup withholding but will be subject to information reporting unless the holder certifies its status as a non-U.S. holder under

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penalties of perjury or the broker has certain documentary evidence in its files as to the non-U.S. holder's foreign status and the broker has no actual knowledge to the contrary.

For this purpose, a "U.S. Related Person" is (i) a "controlled foreign corporation" for U.S. Federal income tax purposes, (ii) a foreign person 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the broker has been in existence) is derived from activities that are effectively connected with the conduct of a U.S. trade or business or (iii) a foreign partnership if at any time during its tax year one or more of its partners are United States persons who, in the aggregate, hold more than 50% of the income or capital interest of the partnership or if, at any time during its taxable year, the partnership is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax and may be refunded (or credited against the holder's U.S. Federal income tax liability, if any); *provided* that certain required information is furnished. The information reporting requirements may apply regardless of whether withholding is required. Copies of the information returns reporting such interest and withholding also may be made available to the tax authorities in the country in which a non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

Tax Shelter Reporting Requirements

Pursuant to Treasury Regulations directed at tax shelter activity, taxpayers are required to disclose to the IRS certain information on IRS Form 8886 if they participate in a "reportable transaction." A transaction may be a "reportable transaction" based upon any of several indicia with respect to a holder, including the existence of significant book-tax differences or the recognition of a loss. A significant penalty will be imposed on taxpayers who participate in a "reportable transaction" and fail to make the required disclosure in tax returns and statements due after October 22, 2004. The penalty is generally $10,000 for natural persons and $50,000 for other persons (increased to $100,000 and $200,000, respectively, if the reportable transaction is a "listed" transaction). Investors should consult their own tax advisors concerning any possible disclosure obligation with respect to their investment in the Issuer and the penalty discussed above.

Cayman Islands Tax Considerations

The following comments are based on advice of Maples and Calder received by the Issuer regarding current law and practice in the Cayman Islands and are intended to assist investors in the Notes or the Preference Shares. Investors should consult their professional advisors on the possible tax consequences of such investors subscribing for, purchasing, holding, selling or redeeming Notes or Preference Shares under the laws of such investors' countries of citizenship, residence, ordinary residence or domicile.

The following is a general summary of Cayman Islands taxation in relation to the Notes and the Preference Shares.

Under existing Cayman Islands laws:

(a) payments in respect of the Notes or the Preference Shares will not be subject to taxation in the Cayman Islands, no withholding will be required on such payments to any holder of a Note or a Preference Share, and gains derived from the sale of Notes or Preference Shares will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

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(b) the holder of any Note (or the legal personal representative of such holder), if such Note is brought into the Cayman Islands, may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note. In addition, an instrument transferring title to a Note, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. No stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the issue of Preference Shares, the execution and issue of the certificates relating thereto or in respect of the execution and delivery of an instrument of transfer of Preference Shares.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and expects to obtain, an undertaking from the Governor in Cabinet of the Cayman Islands substantially in the following form:

"TAX CONCESSIONS LAW
(1999 REVISION)
UNDERTAKING AS TO TAX CONCESSIONS

In accordance with the provisions of Section 6 of the Tax Concessions Law (1999 Revision) the Governor in Cabinet undertakes with:

Khaleej II CDO, Ltd. "the Company"

(a) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

(i) on or in respect of the shares debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of TWENTY years from the second day of August, 2005.

GOVERNOR IN CABINET"

The Cayman Islands does not have a double tax treaty arrangement with the U.S. or any other country.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN OF THE TAX IMPLICATIONS OF AN INVESTMENT IN THE NOTES OR THE PREFERENCE SHARES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS PRIOR TO INVESTING TO DETERMINE THE TAX IMPLICATIONS OF SUCH INVESTMENT IN LIGHT OF SUCH INVESTOR'S CIRCUMSTANCES.

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ERISA CONSIDERATIONS

CIRCULAR 230 NOTICE. THE FOLLOWING NOTICE IS BASED ON U.S. TREASURY REGULATIONS GOVERNING PRACTICE BEFORE THE INTERNAL REVENUE SERVICE: (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) ("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 plan or entity to purchase Offered Securities should determine whether, under the general fiduciary standards of ERISA or other applicable law, an investment in the Offered Securities is appropriate for such plan or entity. In determining whether a particular investment is appropriate for an ERISA Plan, U.S. Department of Labor regulations provide that the fiduciaries of an ERISA Plan must give appropriate consideration to, among other things, the role that the investment plays in the ERISA Plan's portfolio, taking into consideration whether the investment is designed reasonably to further the ERISA Plan's purposes, an examination of the risk and return factors, the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the ERISA Plan and the projected return of the total portfolio relative to the ERISA Plan's funding objectives. Before investing the assets of an ERISA Plan in Offered Securities, a fiduciary should determine whether such an investment is consistent with the foregoing regulations and its fiduciary responsibilities, including any specific restrictions to which such fiduciary may be subject.

Section 406(a) of ERISA and Section 4975 of the Code prohibit certain transactions ("prohibited transactions") involving the assets of ERISA Plans or plans described in Section 4975(e)(1) of the Code (together with ERISA Plans, "Plans") and certain persons (referred to as "Parties-In-Interest" in ERISA and as "Disqualified Persons" in Section 4975 of the Code) having certain relationships to such plans and entities. A Party-In-Interest or Disqualified Person who engages in a non-exempt prohibited transaction may be subject to non-deductible excise taxes and other penalties and liabilities under ERISA and/or the Code.

Each of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Swap Counterparty, the Initial Purchaser and/or the Placement Agent as a result of its own activities or because of the activities of

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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 the Notes are acquired by a Plan with respect to which any of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Initial Purchaser, the Placement Agent, the Swap Counterparty or any of their respective affiliates is a Party-In-Interest or Disqualified Person. In addition, if a Party-In-Interest or Disqualified Person with respect to a Plan owns or acquires a beneficial interest in the Issuer or the Co-Issuer, the acquisition or holding of Notes by or on behalf of the Plan could be considered to constitute an indirect prohibited transaction. Moreover, the acquisition or holding of Notes or other indebtedness issued by the Issuer or the Co-Issuer by or on behalf of a Party-In-Interest or Disqualified Person with respect to a Plan that owns or acquires a beneficial interest in the Issuer or the Co-Issuer, as the case may be, also could give rise to an indirect prohibited transaction. Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of plan fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are PTE 90-1, regarding investments by insurance company pooled separate accounts; PTE 91-38, regarding investments by bank collective investment funds; PTE 84-14, regarding transactions effected by a "qualified professional asset manager"; PTE 96-23, regarding investments by certain in house asset managers; and PTE 95-60, regarding investments by insurance company general accounts. Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. If a purchase of Notes were to be a non-exempt prohibited transaction, the purchase might have to be rescinded.

Government plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to local, state or other Federal laws that are similar to the foregoing provisions of ERISA and the Code (a "Similar Law").

The United States Department of Labor, the government agency primarily responsible for administering the ERISA fiduciary rules and the prohibited transaction rules under ERISA and the Code, has issued a regulation (the "Plan Asset Regulation") that, under specified circumstances, requires plan fiduciaries, and entities with certain specified relationships to a Plan, to "look through" investment vehicles (such as the Issuer) and treat as an "asset" of the Plan its undivided interest in each underlying investment made by such investment vehicle. The Plan Asset Regulation provides, however, that if equity participation in any entity by "Benefit Plan Investors" is not significant then the "look through" rule will not apply to such entity. "Benefit Plan Investors" are defined in the Plan Asset Regulation to include (1) any employee benefit plan (as defined in Section 3(3) of ERISA), whether or not subject to Title I of ERISA, (2) any plan described in Section 4975(e)(1) of the Code, and (3) any entity whose underlying assets include plan assets by reason of a plan's investment in the entity. Equity participation by Benefit Plan Investors in an entity is significant if, immediately after the most recent acquisition of any equity interest in the entity, 25% or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, having discretionary authority or control over the assets of the entity or providing investment advice with respect to the assets of the entity for a fee, direct or indirect, or any affiliates of such persons (any such person, a "Controlling Person")) is held by Benefit Plan Investors (the "25% Threshold").

There is little pertinent authority in this area. However, on the date of issuance, it is not anticipated that the Notes will constitute "equity interests" in the Co-Issuers. However, there can be no assurance that each Class of such 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.

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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 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 to the effect that (i) it is not a Benefit Plan Investor or a Controlling Person and (ii) it will not transfer such Regulation S Preference Share or an interest therein except in compliance with the transfer restrictions set forth in such letter. Each Original Purchaser of Restricted Definitive Preference Shares from the Issuer or the Initial Purchaser will be required to certify in the Investor Application Form pursuant to which such Preference Shares were purchased whether or not it is a Benefit Plan Investor or a Controlling Person. No subsequent transferee of a Restricted Definitive Preference Share may be a Benefit Plan Investor or a Controlling Person. Any subsequent transferee that acquires Definitive Preference Shares will be required to represent as to similar matters in the transfer certificate delivered to the Issuer and the Preference Share Registrar in connection with such transfer. In particular, each owner of an interest in a Definitive Preference Share will be required to execute and deliver to the Issuer and the Preference Share Registrar a transfer certificate in the form attached as an exhibit to the Preference Share Paying Agency Agreement to the effect that such owner will, prior to any sale, pledge or other transfer by it of any Definitive Preference Share (or any interest therein), obtain from the transferee a duly executed transferee certificate in the form attached to the Preference Share Paying Agency Agreement, and such other certificates and other information as the Issuer or the Preference Share Paying Agent may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions contained in the Preference Share Documents.

Notwithstanding the restrictions on transfers of Preference Shares to Benefit Plan Investors and/or Controlling Persons following the Closing Date, the Preference Share Paying Agency Agreement will provide that an Original Purchaser of Preference Shares which has delivered a completed Investor Application Form to the Initial Purchaser on the Closing Date will be deemed, for purposes of such transfer restrictions, to have purchased such Preference Shares on the Closing Date notwithstanding that settlement and/or delivery with respect to such Preference Shares has occurred after the Closing Date even if such Original Purchaser disclosed in such Investor Application Form that it is a Benefit Plan Investor or a Controlling Person, and the 25% Threshold will be calculated as if such Original Purchaser is the owner of such Preference Shares on the Closing Date.

If for any reason the assets of the Issuer are deemed to be "plan assets" of a Plan subject to Title I of ERISA or the prohibited transaction provisions of Section 4975 of the Code because one or more such Plans is an owner of Preference Shares, certain transactions that either of the Co-Issuers might enter into, or may have entered into, in the ordinary course of its business might constitute non-exempt "prohibited transactions" under Section 406 of ERISA or Section 4975 of the Code and might have to be rescinded. In addition, if the assets of the Issuer are deemed to be "plan assets" of a Plan subject to Title I of ERISA or Section 4975 of the Code, the payment of certain of the fees by the Issuer might be considered to be a non-exempt "prohibited transaction" under Section 406 of ERISA or Section 4975 of the Code. Moreover, if the underlying assets of the Issuer were deemed to be assets constituting "plan assets," there are several provisions of ERISA that could be implicated if an ERISA Plan were to acquire and hold Preference Shares either directly or by investing in an entity whose underlying assets are deemed to be assets of the ERISA Plan. It is not clear that Section 403(a) of ERISA, which generally requires that all of the assets of an ERISA Plan be held in trust and limits delegation of investment management responsibilities by fiduciaries of ERISA Plans, would be satisfied. It is also not clear whether Section 404(b) of ERISA, which generally provides that no fiduciary may maintain the indicia of

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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 Notes are acquired by a Plan with respect to which a holder of a Preference Share is a Party-In-Interest or a Disqualified Person, such transaction could be deemed to be a direct or indirect violation of the prohibited transaction rules of ERISA and Section 4975 of the Code unless such Plan's purchase and holding of Notes were subject to one or more statutory, regulatory or administrative exemptions from the prohibited transaction rules. In this regard, each Plan, and each Person investing plan assets, that purchases Notes will be deemed to represent and warrant that its purchase of the Notes is subject to an exemption from the prohibited transaction rules.

The sale of any Offered Security to a Plan is in no respect a representation by the Issuer, the Initial Purchaser, the Placement Agent or any of their respective 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 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 ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS ANY NOTE OR INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") THAT IS SUBJECT TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE, AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, WHICH PLAN OR ENTITY IS SUBJECT TO TITLE I OF ERISA OR THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (B) ITS ACQUISITION AND HOLDING OF SUCH NOTE WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION IN VIOLATION OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A VIOLATION OF SUCH LAW OR SUCH SIMILAR LAW).

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A PREFERENCE SHARE OR A BENEFICIAL INTEREST THEREIN WILL BE REQUIRED TO CERTIFY THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THE PREFERENCE SHARE OR AN INTEREST THEREIN WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS A PREFERENCE SHARE OR ANY INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR OR A PERSON THAT IS NOT A BENEFIT PLAN INVESTOR BUT WHICH HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR PROVIDES INVESTMENT ADVICE FOR A FEE, DIRECT OR INDIRECT, WITH RESPECT TO SUCH ASSETS OR WHO IS AN AFFILIATE OF ANY SUCH PERSON (EACH SUCH PERSON, A "CONTROLLING PERSON"), EXCEPT THAT, ON THE CLOSING DATE, IT MAY BE A BENEFIT PLAN INVESTOR WHOSE INVESTMENT IN RESTRICTED DEFINITIVE PREFERENCE SHARES WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION

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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 NON-EXEMPT VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW) OR A CONTROLLING PERSON, BUT ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, LESS THAN 25% OF THE VALUE OF THE PREFERENCE SHARES WOULD BE HELD BY BENEFIT PLAN INVESTORS (DETERMINED AFTER EXCLUDING PREFERENCE SHARES HELD BY CONTROLLING PERSONS).

ANY PLAN FIDUCIARY THAT PROPOSES TO CAUSE A PLAN TO PURCHASE OFFERED SECURITIES SHOULD CONSULT WITH ITS OWN LEGAL AND TAX ADVISORS WITH RESPECT TO THE POTENTIAL APPLICABILITY OF ERISA AND THE CODE TO SUCH INVESTMENTS, THE CONSEQUENCES OF SUCH AN INVESTMENT UNDER ERISA AND THE CODE AND THE ABILITY TO MAKE THE REPRESENTATIONS DESCRIBED ABOVE. MOREOVER, EACH PLAN FIDUCIARY SHOULD DETERMINE WHETHER, UNDER THE GENERAL FIDUCIARY STANDARDS OF ERISA, AN INVESTMENT IN THE OFFERED SECURITIES IS APPROPRIATE FOR THE PLAN, TAKING INTO ACCOUNT THE OVERALL INVESTMENT POLICY OF THE PLAN AND THE COMPOSITION OF THE PLAN'S INVESTMENT PORTFOLIO. NO TRANSFER OF A PREFERENCE SHARE WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE PAYING AGENT WILL RECOGNIZE ANY SUCH TRANSFER AFTER THE CLOSING DATE IF SUCH TRANSFER IS TO A BENEFIT PLAN INVESTOR.

It should be noted that an insurance company's general account may be deemed to include assets of ERISA Plans under certain circumstances, *e.g.*, where an ERISA Plan purchases an annuity contract issued by such an insurance company, based on the reasoning of the United States Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993). An insurance company considering the purchase of Offered Securities with assets of its general account should consider such purchase and the insurance company's ability to make the representations described above in light of *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, Section 401(c) of ERISA and 29 C.F.R. §2550.40c-1.

The discussion of ERISA and Section 4975 of the Code contained in this Offering Circular is, of necessity, general, and does not purport to be complete. Moreover, the provisions of ERISA and Section 4975 of the Code are subject to extensive and continuing administrative and judicial interpretation and review. Therefore, the matters discussed above may be affected by future regulations, rulings and court decisions, some of which may have retroactive application and effect.

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PLAN OF DISTRIBUTION

The Co-Issuers, the Initial Purchaser and the Placement Agent will enter into a securities purchase agreement (the "Purchase Agreement") relating to the purchase, sale and placement of the Offered Securities to be delivered on the Closing Date (the "Offering"). 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 responsibilities are limited to a "reasonable efforts" basis in placing the Offered Securities, with no understanding, express or implied, on the part of the Initial Purchaser of a commitment by the Initial Purchaser, whether as principal or agent, to purchase or place the Offered Securities. The obligations of the Initial Purchaser and the Placement Agent 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 and the Placement Agent may be required to make in respect thereof. In consideration of MLI's role in the structuring of the issuance of the Offered Securities and of the Swap Agreement and of its role as Initial Purchaser, MLI will receive the Structuring Fee on each Distribution Date through the Distribution Date in September 2009, which is payable out of available Interest Proceeds and Principal Proceeds in accordance with the Priority of Payments. MLI will allocate a portion of the Structuring Fee to the Placement Agent as compensation for its services as placement agent pursuant to the Purchase Agreement.

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 a Investor Application Form in form and substance satisfactory to the Initial Purchaser and the Issuer.

The Co-Issuers have been advised by the Initial Purchaser that the Initial Purchaser proposes to sell the Offered Securities (a) in the United States in reliance upon an exemption from the registration requirements of the Securities Act to Qualified Purchasers who are also either (i) Qualified Institutional Buyers or (ii) Accredited Investors and (b) outside the United States to persons who are not U.S. persons (as defined in Regulation S) in offshore transactions in reliance on Regulation S and, in each case, in accordance with applicable laws.

The Co-Issuers and the Initial Purchaser have been advised by the Placement Agent that the Placement Agent proposes to sell the Offered Securities only 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 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.

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(1) In the Purchase Agreement, the Initial Purchaser will represent and agree that it has not offered or sold Offered Securities and will not offer or sell Offered Securities except to persons who are not U.S. Persons in accordance with Rule 903 of Regulation S or as provided in paragraph (2) below. Accordingly, the Initial Purchaser will represent and agree that, except as provided in paragraph (2) below, 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 in the United States with respect to Offered Securities, and it and they have complied and will comply with the offering restrictions requirements of Regulation S.

(2) In the Purchase Agreement, the Initial Purchaser will agree that it will not, acting either as principal or agent, offer or sell any Offered Securities in the United States other than Offered Securities in registered form bearing a restrictive legend thereon, and it will not, acting either as principal or agent, offer, sell, reoffer or resell any of such Offered Securities (or approve the resale of any of such Offered Securities):

> (a) except (1) inside the United States through a U.S. broker-dealer that is registered under the Exchange Act to investors each of which the Initial Purchaser reasonably believes is a Qualified Institutional Buyer or an Accredited Investor that has such knowledge and experience in financial and business matters that it is capable of evaluating and bearing the risks of investing in the Offered Securities (or is represented by a fiduciary or agent with sole investment discretion having such knowledge and experience) that (in each of the foregoing cases) is also a Qualified Purchaser or (2) otherwise in accordance with the restrictions on transfer set forth in such Offered Securities, the Purchase Agreement and this Offering Circular; or
>
> (b) by means of any form of general solicitation or general advertisement, including but not limited to (1) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio and (2) any seminar or meeting whose attendees have been advised by any general solicitation or general advertising.

Prior to the sale of any Offered Securities in registered form bearing a restrictive legend thereon, the Initial Purchaser shall have provided each offeree that is a U.S. Person with a copy of this Offering Circular in the form the Issuer and the Initial Purchaser shall have agreed most recently shall be used for offers and sales in the United States.

(3) In the Purchase Agreement, the Initial Purchaser will represent and agree that in connection with each sale to an Accredited Investor it has taken or will take reasonable steps to ensure that the purchaser is aware that the Offered Securities have not been and will not be registered under the Securities Act and that transfers of Offered Securities are restricted as set forth herein.

(4) In the Purchase Agreement, 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. Accordingly, 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 in the United States, and it and they have complied and will comply with the offering restrictions requirements of Regulation S.

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United Kingdom

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

(1) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date, will not offer or sell any Offered Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of any Offered Securities in circumstances in which Section 21(1) of said Act would not, if each of the Co-Issuers were not an authorized person, apply to the Co-Issuers; and

(3) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Offered Securities in, from or otherwise involving the United Kingdom.

Cayman Islands

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.

Channel Islands

The Initial Purchaser will also represent and agree that it has not made and will not make any invitation, directly or indirectly, to the public in Jersey or Guernsey to subscribe for any of the Offered Securities.

Hong Kong

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

(1) that it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, the Notes other than to persons whose ordinary business it is to buy or sell shares of debentures (whether as principal or agent) or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong (the "Companies Ordinance"); and

(2) unless it is a person permitted to do so under the securities laws of Hong Kong, it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purpose of issue, in Hong Kong, any advertisement, invitation or document relating to the Notes, other than with respect to Notes intended to be disposed of to persons outside Hong Kong or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal or holdings of securities, whether as principal or agent.

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General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Offered Securities or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuer or the Offered Securities in any country or jurisdiction where action for that purpose is required. Accordingly, the Offered Securities may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Offered Securities may be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Purchasers of the Offered Securities may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the purchase price.

Purchasers of the Offered Securities will be required, as a condition to payment of amounts on the Offered Securities without the imposition of withholding tax, to provide certain certifications with respect to any applicable taxes or reporting requirements of the United States or the Cayman Islands.

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TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes or Preference Shares.

Investor Representations on Initial Purchase. Each Original Purchaser of Notes (or any beneficial interest therein) will be deemed to acknowledge, represent and warrant to and agree with the Co-Issuers and the Initial Purchaser, and each Original Purchaser of Preference Shares (or any beneficial interest therein) will be required in an Investor Application Form to acknowledge, represent and warrant to and agree with the Issuer and the Initial Purchaser as follows:

(1) *No Governmental Approval.* The purchaser understands that the Offered Securities have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular. The purchaser further understands that any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer.* Each purchaser of a Note (if required by the Indenture) and each purchaser of Preference Shares will, prior to any sale, pledge or other transfer by it of any such Offered Security (or any interest therein), obtain from the transferee and deliver to the Issuer and the Note Registrar (in the case of a Note) or the Preference Share Registrar (in the case of a Preference Share) a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture or the Preference Share Paying Agency Agreement, as the case may be, and such other certificates and other information as the Issuer, the Trustee (in the case of the Notes) or the Preference Share Registrar (in the case of the Preference Shares) may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular and the Indenture or the Preference Share Documents.

(3) *Minimum Denominations.* The purchaser agrees that no Offered Security (or any interest therein) may be sold, pledged or otherwise transferred in a denomination of less than the applicable minimum denomination set forth in the Indenture (in the case of the Notes) or the Preference Share Documents (in the case of the Preference Shares).

(4) *Securities Law Limitations on Resale.* The purchaser understands that the Offered Securities have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons unless they are registered under the Securities Act or unless an exemption from registration is available. Accordingly, the certificates representing the Offered Securities will bear a legend stating that the Offered Securities have not been registered under the Securities Act and setting forth certain of the restrictions on transfer of the Offered Securities described herein. The purchaser understands that neither the Issuer nor (in the case of the Notes) the Co-Issuer has any obligation to register any of the Offered Securities under the Securities Act or to comply with the requirements for any exemption from the registration requirements of the Securities Act (other than to supply information specified in Rule 144A(d)(4) of the Securities Act as required by the Indenture and the Preference Share Documents).

(5) *Qualified Institutional Buyer, Accredited Investor or Non-U.S. Person Status; Investment Intent.* In the case of a purchaser who takes delivery of the Offered Securities in the form of a Restricted Global Note (or interest therein) or a Restricted Definitive Preference Share, it is (a) a Qualified Institutional Buyer or (b) (in the case of an Original Purchaser) an Accredited

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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.

(6) *Purchaser Sophistication; Non-Reliance; Suitability; Access to Information*. The purchaser (a) has such knowledge and experience in financial and business matters that the purchaser is capable of evaluating the merits and risks (including for tax, legal, regulatory, accounting and other financial purposes) of its prospective investment in Offered Securities, (b) is financially able to bear such risk, (c) in making such investment is not relying on the advice or recommendations of any of the Initial Purchaser, the Placement Agent, 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.

(7) *Certain Resale Limitations*. The purchaser is aware that no Offered Securities (or any interest therein) may be offered, sold, pledged or otherwise transferred to (a) a transferee acquiring a Restricted Global Note (or interest therein) or Restricted Definitive Preference Share except (i)(A) to a transferee whom the seller reasonably believes is a Qualified Institutional Buyer purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and that is a Qualified Purchaser or (B) solely in the case of a Restricted Definitive Preference Share, in accordance with another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (ii) to a transferee that is a U.S. Person, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) in the case of a transfer of an interest in a Preference Share (other than the transfer of a Restricted Definitive Preference Share to an Original Purchaser), to a transferee who is neither a Benefit Plan Investor nor, as applicable, a Controlling Person, (v) in compliance with the certification (if any) and other requirements set forth in the Indenture or the Preference Share Documents and (vi) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (b) a transferee acquiring an interest in a Regulation S Note or a Regulation S Preference Share except (i) to a transferee that is acquiring such interest in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (ii) to a transferee that is not a U.S.

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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, as applicable, a Controlling Person, (v) in compliance with the certification (if any) and other requirements set forth in the Indenture or the Preference Share Documents and (vi) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(8) *Limited Liquidity*. The purchaser understands that there is no market for any Class of Offered Securities and that no assurance can be given as to the liquidity of any trading market for such Class of Offered Securities or that a trading market for such Class of Offered Securities will develop. It further understands that, although the Initial Purchaser may from time to time make a market in a Class of Offered Securities, the Initial Purchaser is not under any obligation to do so and, following the commencement of any market-making, may discontinue the same at any time. Accordingly, the purchaser must be prepared to hold such Offered Securities for an indefinite period of time or until their maturity.

(9) *Investment Company Act*. The purchaser either (a) is not a U.S. Person or (b) is a Qualified Purchaser. The purchaser agrees that no sale, pledge or other transfer of a Note (or any interest therein) may be made (a) to a transferee acquiring Restricted Notes (or any interest therein) except to a transferee that is a Qualified Purchaser, (b) to a transferee acquiring an interest in a Regulation S Note that is not a U.S. Person in an offshore transaction in accordance with Regulation S or (c) if such transfer would have the effect of requiring either of the Co-Issuers or the Collateral to register as an investment company under the Investment Company Act. If the purchaser is a U.S. Person that is an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an "excepted investment company"): (x) all of the beneficial owners of outstanding securities (other than short-term paper) of such entity (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 ("pre-amendment beneficial owners"); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities of such entity, have consented to such entity's treatment as a Qualified Purchaser in accordance with the Investment Company Act.

(10) *ERISA*. In the case of a purchaser of a Note, or an Original Purchaser of a Restricted Definitive Preference Share, either (a) it is not (and for so long as it holds any such Note or Preference Share or any interest therein will not be) a Benefit Plan Investor, or (b) its purchase and ownership of such Note or 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.

In addition, if a purchaser of a Note, or an Original Purchaser of a Restricted Definitive Preference Share is a Benefit Plan Investor, its fiduciaries represent and warrant that they have been informed of and understand the Issuer's investment objectives, policies and strategies and that the decision to invest such Plan's assets or such employee benefit plan's assets, as the case may be, in such Offered Securities was made with appropriate consideration of relevant investment factors with regard to such Plan or such employee benefit plan, as the case may be, and is consistent with the duties and responsibilities imposed upon fiduciaries with regard to their investment decisions under Title I of ERISA or Similar Law.

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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 a letter in the form attached as Exhibit A hereto which will include a representation to the effect that such transferee is not a Benefit Plan Investor or a Controlling Person).

(11) *Limitations on Flow-Through Status*. In the case of a purchaser that is a U.S. Person, it is either (a) not a Flow-Through Investment Vehicle or (b) a Qualifying Investment Vehicle. A purchaser is a "Flow-Through Investment Vehicle" if (i) in the case of a purchaser that would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, the amount of the purchaser's investment in the Offered Securities (including its investment in all Classes of Notes and the Preference Shares) exceeds 40% of the total assets (determined on a consolidated basis with its subsidiaries) of the purchaser; (ii) any Person owning any equity or similar interest in the purchaser has the ability to control any investment decision of the purchaser or to determine, on an investment-by-investment basis, the amount of such Person's contribution to any investment made by the purchaser; (iii) the purchaser was organized or reorganized for the specific purpose of acquiring any Offered Securities or (iv) additional capital or similar contributions were specifically solicited from any Person owning an equity or similar interest in the purchaser for the purpose of enabling the purchaser to purchase Offered Securities. A "Qualifying Investment Vehicle" is an entity as to which all of the beneficial owners of any securities issued by such entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Co-Issuers and the Note Registrar or the Preference Share Registrar, as the case may be, each of the representations set forth in this Offering Circular and in the Indenture or the Preference Share Documents required to be made upon transfer of any Offered Securities (with modifications to such representations satisfactory to the Issuer to reflect the indirect nature of the interests of such beneficial owners in such Notes 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).

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(12) *Certain Transfers Void.* The purchaser agrees that (a) any sale, pledge or other transfer of an Offered Security (or any interest therein) made in violation of the transfer restrictions contained in this Offering Circular and in the Indenture or the Preference Share Documents, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, will be void and of no force or effect and (b) none of the Issuer, the Trustee, the Note Registrar (in the case of the Notes) and the Preference Share Paying Agent (in the case of the Preference Shares) has any obligation to recognize any sale, pledge or other transfer of an Offered Security (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Co-Issuers determines that any beneficial owner of (A) a Regulation S Note (or any interest therein) is a U.S. Person or (B) a Restricted Note is not a Qualified Institutional Buyer (or, in the case of an Original Purchaser of such Restricted Note, an Accredited Investor) and also a Qualified Purchaser, the Co-Issuers shall require, by notice to such holder, that such holder sell all of its right, title and interest to such Note (or interest therein) to a Person that is (1) not a U.S. Person (in the case of a person acquiring its interest through a Regulation S Global Note) or (2) in the case of a person acquiring its interest through a Restricted Note, both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee and approved by the Collateral Manager 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 acquiring its interest through a Regulation S Note) or (B) in the case of a person acquiring its interest through a Restricted Note, is a (a) Qualified Institutional Buyer and (b) a Qualified Purchaser and (ii) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner and such Note shall be deemed not to be outstanding for the purpose of any vote or consent of Noteholders.

The Preference Share Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner of Preference Shares (A) in the case of Regulation S Preference Shares is a U.S. Person (within the meaning of Regulation S under the Securities Act) and (B) in the case of Restricted Definitive Preference Shares, is not both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (ii) a Qualified Purchaser, then the Issuer shall require, by notice to such holder, that such holder sell all of its right, title and interest to such Preference Shares (or interest therein) to a person that will take delivery of a Restricted Definitive Preference Share and that is both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Preference Share pursuant to another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is

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given. If such beneficial owner fails to effect the transfer required within such 30-day period, (a) upon direction from the Issuer, the Preference Share Paying Agent, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale arranged by the Collateral Manager on behalf of the Issuer (conducted by an investment bank selected by the Preference Share Paying Agent and approved by the Collateral Manager 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 will take delivery of a Restricted Definitive Preference Share and that certifies to the Preference Share Paying Agent, the Collateral Manager, the Preference Share Registrar and the Issuer, in connection with such transfer, that such person is a both (i) (x) a Qualified Institutional Buyer or (y) entitled to take delivery of such Restricted 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), (ii) a Qualified Purchaser and (iii) not a Benefit Plan Investor or a Controlling Person and (b) pending such transfer, no further payments will be made in respect of such Preference Share held by such beneficial owner.

The Preference Share Paying Agency Agreement provides that if the Issuer determines that any beneficial owner of a Preference Share (other than an Original Purchaser of a Restricted Definitive Preference Share) is a Benefit Plan Investor or a Controlling Person, or that an Original Purchaser did not disclose at the time of its acquisition of such interest whether it is a Benefit Plan Investor (including insurance company general accounts with assets constituting plan assets) or a Controlling Person, or, subsequent to the purchase of a Preference Share such beneficial owner is or has become a Benefit Plan Investor (including insurance company general accounts with assets constituting plan assets) or a Controlling Person, then the Issuer shall require that such beneficial owner sell all of its right, title and interest in or to such Preference Shares as further described herein under "Description of the Preference Shares—Registration and Transfer."

(13) *Limitation on Sales of Preference Shares to Reg Y Institutions.* Each purchaser of Preference Shares understands that no Reg Y Institution may transfer any Preference Shares held by it to any person other than (i) a person or group of persons under common control that controls the Issuer without reference to any Preference Shares transferred to such person or group by such Reg Y Institution (a "Reg Y Controlling Party"), (ii) a person or persons designated by a Reg Y Controlling Party, (iii) in a widespread public distribution as part of a public offering, (iv) in amounts such that, after giving effect thereto, no single transferee and its affiliates will hold more than 2% of the aggregate number of Preference Shares (including all options, warrants and similar rights exercisable or convertible into Preference Shares) or (v) as otherwise permitted by applicable U.S. Federal banking law and regulations.

(14) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuer, the Initial Purchaser, the Placement Agent, the Trustee, the Collateral Manager, the Swap Counterparty and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements and agrees that, if any of the acknowledgments, representations or warranties made or deemed to have been made by it in connection with its purchase of the Offered Securities are no longer accurate, the purchaser will promptly notify the Issuer and the Initial Purchaser.

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

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(16) *Legend.* Each purchaser of a Note (or any beneficial interest therein) understands and agrees that a legend in substantially the following form will be placed on each Note:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND BENEFICIAL INTERESTS HEREIN MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) (1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) TO A PERSON THAT IS NOT A U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. NEITHER OF THE CO-ISSUERS NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT").

NO TRANSFER OF A NOTE (OR ANY INTEREST THEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. PERSON THAT IS NOT BOTH (X) A QUALIFIED INSTITUTIONAL BUYER AND ALSO (Y) EITHER (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 OF THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE SUCH QUALIFIED PURCHASERS AND/OR KNOWLEDGEABLE EMPLOYEES (EACH OF (I), (II) AND (III), A "QUALIFIED PURCHASER"), (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE CO-ISSUERS OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A U.S. PERSON THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE (IF ANY) ATTACHED AS AN EXHIBIT TO THE INDENTURE REFERRED TO BELOW. EACH HOLDER OF A BENEFICIAL INTEREST IN THIS NOTE IS DEEMED TO REPRESENT AND WARRANT EITHER (A) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") THAT IS SUBJECT TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE, AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN

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PURSUANT TO 29 C.F.R. SECTION 2510.3-101, WHICH PLAN OR ENTITY IS SUBJECT TO TITLE I OF ERISA OR THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 4975 OF THE CODE, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW") OR (B) THE ACQUISITION AND HOLDING OF THIS NOTE WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION IN VIOLATION OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A VIOLATION OF ANY SUCH LAW OR SUCH SIMILAR LAW). THE NOTES OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED ONLY IN PERMITTED DENOMINATIONS SPECIFIED IN THE INDENTURE. THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A [REGULATION S NOTE][1] [RESTRICTED NOTE][2] UPON RECEIPT BY THE TRUSTEE OF A TRANSFER CERTIFICATE FROM THE TRANSFEROR SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE. ACCORDINGLY, AN INVESTOR IN THIS NOTE MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

IF, NOTWITHSTANDING THE RESTRICTIONS ON TRANSFER CONTAINED IN THIS NOTE OR THE INDENTURE, EITHER OF THE CO-ISSUERS DETERMINES THAT ANY BENEFICIAL OWNER OF (X) A REGULATION S NOTE (OR ANY INTEREST THEREIN) IS A "U.S. PERSON" WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT OR (Y) A RESTRICTED NOTE (OR ANY INTEREST THEREIN) IS NOT BOTH A QUALIFIED INSTITUTIONAL BUYER (OR, IN THE CASE OF THE INITIAL PURCHASER OF SUCH RESTRICTED NOTE OR INTEREST THEREIN, AN ACCREDITED INVESTOR) AND A QUALIFIED PURCHASER, THEN THE CO-ISSUERS SHALL REQUIRE, BY NOTICE TO SUCH HOLDER, THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO SUCH RESTRICTED NOTE (OR INTEREST THEREIN) TO A PERSON THAT (1) IS NOT A U.S. PERSON (IN THE CASE OF A PERSON ACQUIRING ITS INTEREST THROUGH A REGULATION S GLOBAL NOTE) OR (2) IS BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER (IN THE CASE OF A PERSON ACQUIRING ITS INTEREST THROUGH A RESTRICTED GLOBAL NOTE),WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH BENEFICIAL OWNER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (1) UPON DIRECTION FROM THE ISSUER, THE TRUSTEE (ON BEHALF OF AND AT THE EXPENSE OF THE ISSUER) SHALL CAUSE SUCH BENEFICIAL OWNER'S INTEREST IN SUCH NOTE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE ARRANGED BY THE COLLATERAL MANAGER ON BEHALF OF THE ISSUER (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE TRUSTEE AND APPROVED BY THE COLLATERAL MANAGER 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 REGULATION S NOTE) OR (Y) IS BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED

[1] Restricted Notes only.
[2] Regulation S Notes only.

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PURCHASER (IN THE CASE OF A RESTRICTED NOTE) AND (2) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF SUCH NOTE (OR INTEREST THEREIN) HELD BY SUCH BENEFICIAL OWNER, AND THE INTEREST IN THIS NOTE SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE HOLDERS OF THE NOTES.

The following will be inserted in the case of Restricted Global Notes:

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE NOTE REGISTRAR FOR REGISTRATION OF TRANSFER OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

In addition, the legend set forth on any Class C Note or Class D Note will also have the following:

THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("OID") FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE ISSUE PRICE, AMOUNT OF OID, ISSUE DATE AND YIELD TO MATURITY OF THIS NOTE MAY BE OBTAINED BY WRITING TO THE ISSUER C/O MAPLES FINANCE LIMITED, P.O. BOX 1093 GT, QUEENSGATE HOUSE, GRAND CAYMAN, CAYMAN ISLANDS.

In addition, the legend set forth on any Restricted Note will also have the following:

IN ADDITION, NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS (A) A DEALER DESCRIBED IN PARAGRAPH (A)(1)(ii) OF RULE 144A WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER OR (B) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN. THE TRANSFEREE, AND EACH ACCOUNT FOR WHICH IT IS PURCHASING, IS REQUIRED TO HOLD AND TRANSFER AT LEAST THE MINIMUM DENOMINATIONS OF THE NOTES.

In addition, the legend set forth on any Regulation S Note will also have the following:

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY NOT BE HELD BY A U.S. PERSON AT ANY TIME.

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(17) *Legend for Preference Shares*. The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Preference Shares:

THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") OR (3) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (SUBJECT TO THE DELIVERY OF SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS THE ISSUER MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE ISSUER CHARTER AND THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. NEITHER THE ISSUER NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT").

EACH PURCHASER THAT IS AN ORIGINAL PURCHASER FROM THE ISSUER OR THE INITIAL PURCHASER ON THE CLOSING DATE (AN "ORIGINAL PURCHASER") AND EACH TRANSFEREE OF A PREFERENCE SHARE (OR A BENEFICIAL INTEREST THEREIN) WILL BE REQUIRED TO CERTIFY THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS SUCH PREFERENCE SHARE (OR AN INTEREST THEREIN) WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS SUCH PREFERENCE SHARE OR AN INTEREST THEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR OR A PERSON THAT IS NOT A BENEFIT PLAN INVESTOR BUT WHICH HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR PROVIDES INVESTMENT ADVICE FOR A FEE, DIRECT OR INDIRECT, WITH RESPECT TO SUCH ASSETS OR WHO IS AN AFFILIATE OF ANY SUCH PERSON (EACH SUCH PERSON, A "CONTROLLING PERSON")[, EXCEPT THAT, ON THE CLOSING DATE, IT MAY BE A BENEFIT PLAN INVESTOR WHOSE INVESTMENT IN RESTRICTED DEFINITIVE PREFERENCE SHARES WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A VIOLATION OF ANY SUCH LAW OR SIMILAR LAW) OR A CONTROLLING PERSON BUT ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, LESS THAN 25% OF THE VALUE OF THE PREFERENCE SHARES WOULD BE HELD BY BENEFIT PLAN INVESTORS

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(DETERMINED AFTER EXCLUDING PREFERENCE SHARES HELD BY CONTROLLING PERSONS)].[3]

NO TRANSFER OF A PREFERENCE SHARE (OR ANY INTEREST THEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. PERSON THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 OF THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE SUCH QUALIFIED PURCHASERS AND/OR KNOWLEDGEABLE EMPLOYEES (EACH OF (I), (II) AND (III), A "QUALIFIED PURCHASER"), (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER IS MADE TO A BENEFIT PLAN INVESTOR (AS DEFINED IN THE PLAN ASSET REGULATION OF THE UNITED STATES DEPARTMENT OF LABOR, 29 C.F.R. SECTION 2510.3-101(f) (A "BENEFIT PLAN INVESTOR")) [EXCEPT THAT, ON THE CLOSING DATE, IT MAY BE MADE TO A BENEFIT PLAN INVESTOR THAT IS AN ORIGINAL PURCHASER WHOSE INVESTMENT IN PREFERENCE SHARES WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A VIOLATION OF SUCH LAW OR ANY SUCH SIMILAR LAW) OR A CONTROLLING PERSON, BUT ONLY IF, AFTER GIVING EFFECT TO SUCH PURCHASE, LESS THAN 25% OF THE VALUE OF THE PREFERENCE SHARES WOULD BE HELD BY BENEFIT PLAN INVESTORS (DETERMINED AFTER EXCLUDING PREFERENCE SHARES HELD BY CONTROLLING PERSONS)][4] [OR TO A PERSON THAT IS NOT A BENEFIT PLAN INVESTOR BUT WHICH IS A CONTROLLING PERSON][5], (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 OR (F) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO HEREIN. ACCORDINGLY, AN INVESTOR IN THE PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. EACH HOLDER HEREOF IS DEEMED TO REPRESENT AND WARRANT [(A) IN THE CASE OF AN ORIGINAL PURCHASER, EITHER (I) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS PREFERENCE SHARE OR AN INTEREST HEREIN WILL NOT BE) A BENEFIT PLAN INVESTOR OR (II) ITS HOLDING OF THE PREFERENCE SHARES WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, WILL NOT RESULT IN A VIOLATION OF ANY SUCH SIMILAR LAW) OR

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3 Restricted Definitive Preference Shares only.
4 Restricted Definitive Preference Shares only.
5 Regulation S Preference Shares only.

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(B) OTHERWISE,][6] THAT IT IS NEITHER A BENEFIT PLAN INVESTOR NOR A CONTROLLING PERSON.

THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY INTEREST THEREIN) MAY BE TRANSFERRED IN AN AMOUNT NOT LESS THAN THE MINIMUM TRADING LOT SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT. IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, THE ISSUER DETERMINES THAT ANY HOLDER[7] OF THIS PREFERENCE SHARE (OR ANY INTEREST THEREIN) (X) [IS A U.S. PERSON] [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 PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (II) A QUALIFIED PURCHASER][8] AND/OR (Y) IS OR BECOMES A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON [AND WAS NOT AN "ORIGINAL PURCHASER"][9] OR DID NOT DISCLOSE IN AN INVESTOR APPLICATION FORM THAT IT WAS A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, 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 ANY INTEREST THEREIN) TO A PERSON THAT WILL TAKE DELIVERY OF A RESTRICTED DEFINITIVE PREFERENCE SHARE AND THAT IS (1) (A) A QUALIFIED INSTITUTIONAL BUYER OR (B) ENTITLED TO TAKE DELIVERY OF SUCH PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (2) A QUALIFIED PURCHASER AND (3) NOT A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH HOLDER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (X) UPON DIRECTION OF THE ISSUER, THE TRUSTEE 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 COLLATERAL MANAGER ON BEHALF OF THE ISSUER (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE PREFERENCE SHARE PAYING AGENT AND APPROVED BY THE COLLATERAL MANAGER 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 WILL TAKE DELIVERY OF A RESTRICTED DEFINITIVE PREFERENCE SHARE AND THAT CERTIFIES TO THE PREFERENCE SHARE PAYING AGENT, THE COLLATERAL MANAGER, THE PREFERENCE SHARE REGISTRAR AND THE ISSUER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON IS (1) (A) A QUALIFIED INSTITUTIONAL BUYER OR (B) ENTITLED TO TAKE DELIVERY OF SUCH PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (2) A QUALIFIED PURCHASER AND (3) NOT A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON, AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE INTEREST IN THE PREFERENCE SHARE HELD BY SUCH

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6 Restricted Definitive Preference Shares only.
7 Regulation S Preference Shares only.
8 Restricted Definitive Preference Shares only.
9 Restricted Definitive Preference Shares only.

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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:

THIS REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE REPRESENTS REGULATION S GLOBAL PREFERENCE SHARES DEPOSITED WITH HSBC BANK plc, AND REGISTERED IN THE NAME OF HSBC ISSUER SERVICES COMMON DEPOSITARY NOMINEE (UK) LIMITED, AS NOMINEE FOR HSBC BANK plc, ON BEHALF OF ABN AMRO BANK N.V. (LONDON BRANCH) AS COMMON DEPOSITARY, WHICH, AS HOLDER OF RECORD, SHALL BE ENTITLED TO RECEIVE ALL DISTRIBUTIONS, OTHER THAN THE FINAL REDEMPTION AMOUNTS, BY WIRE TRANSFER OF IMMEDIATELY AVAILABLE FUNDS. UPON ANY SUCH EXCHANGE OR TRANSFER OF ANY INTERESTS 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 ANY INTERESTS 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 THE ISSUER SHALL ISSUE A NEW REGULATION S GLOBAL PREFERENCE CERTIFICATE (TO THE EXTENT REGULATION S GLOBAL PREFERENCE SHARES CONTINUE TO REMAIN OUTSTANDING) FOR THE AGGREGATE NUMBER OF PREFERENCE SHARES REPRESENTED BY THE REGULATION S GLOBAL PREFERENCE SHARE CERTIFICATE.

THE PREFERENCE SHARES REPRESENTED HEREBY OR ANY INTEREST THEREIN) 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:

THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY INTEREST THEREIN) MAY NOT BE HELD BY A U.S. PERSON AT ANY TIME.

The following shall be inserted in the case of Restricted Definitive Preference Shares:

THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY INTEREST THEREIN) 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

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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 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 transferee of an Offered Security that is required to deliver a transfer certificate will be required, pursuant to such transferee certificate, and each transferee who is not required to deliver a certificate will be deemed (a) to acknowledge, represent and warrant to and agree with the Issuer and the Trustee as to the matters set forth in each of paragraphs (1) through (17) above (other than paragraph (6) above) as if each reference therein to "the purchaser" were instead a reference to the transferee and (b) to further represent and warrant to and agree with the Co-Issuers and the Trustee (in the case of a Note) or the Preference Share Paying Agent (in the case of a Preference Share) as follows:

(1) In the case of a transferee who takes delivery of a beneficial interest in a Restricted Global Note, it (i) is a Qualified Institutional Buyer and also a Qualified Purchaser; (ii) is not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless such purchaser owns and invests on a discretionary basis at least U.S.$25,000,000 in securities of issuers that are not affiliated persons of the dealer; (iii) is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan; (iv) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee; (v) is aware that the sale to it is being made in reliance on Rule 144A or another exemption from registration under the Securities Act; and (vi) 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

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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 has been made for the Notes to be admitted to the official list of the Irish Stock Exchange and trading on its regulated market, subject to the Irish Stock Exchange listing rules and the prospectus rules of the Irish Financial Services Regulatory Authority. 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.

Application has been 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 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 so long as the Notes are listed on the Irish Stock Exchange, copies of the Issuer Charter and the Limited Liability Company Agreement of the Co-Issuer, this Offering Circular, the Indenture, the Master Agreement, the Collateral Management Agreement, the Total Return Swap, the Supersenior Swap, the Preference Share Paying Agency Agreement, the Administration Agreement, the Paying Agency Agreement for Ireland (such agreements, collectively, the "Material Contracts") and a description of the Collateral will be available for inspection and will be obtainable at the registered office of the Issuer, where electronic and physical 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, litigation 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, nor, so far as such Co-Issuer is aware, is any such governmental, litigation or arbitration proceeding involving it pending or threatened.

5. The issuance of the Offered Securities will be authorized by the board of directors of the Issuer by resolutions passed on or prior to the Closing Date. The issuance of the Notes will be authorized by the sole member of the Co-Issuer by resolutions passed on or prior to the Closing Date. Since its organization, neither the Issuer nor the Co-Issuer has commenced trading, established any accounts or declared any dividends, except for the transactions described herein relating to the issuance of the Offered Securities.

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6. The Offered Securities sold in offshore transactions in reliance on Regulation S under the Securities Act and represented by Global Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear under the Common Codes set forth below. The CUSIP (CINS) Numbers and International Securities Identification Numbers (ISIN) for each Class of Securities are as set forth in the table below:

	Regulation S Common Codes	Regulation S Global Note CUSIP Numbers	Restricted Global Note CUSIP Numbers	Regulation S International Securities Identification Numbers
Class A Notes	23048345	G5257CAA3	49373VAA5	XS0230483454
Class B Notes	23048361	G5257CAB1	49373VAC1	XS0230483611
Class C Notes	23048418	G5257CAC9	49373VAE7	XS0230484189
Class D Notes	23048442	G52257CAD7	49373VAG2	XS0230484429

7. Preference Shares sold in offshore transactions in reliance on Regulation S and represented by Regulation S Global Preference Shares have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The table below lists the CUSIP (CINS) Numbers and the International Securities Identification Numbers (ISIN) for the Global Preference Shares:

	Regulation S Common Code	Regulation S Global Preference Share CUSIP Number	Restricted Preference Share CUSIP Number	Regulation S International Securities Identification Number
Preference Shares	23048957	G52553107	49373W204	KYG525531078

LEGAL MATTERS

Certain legal matters with respect to New York law will be passed upon for the Issuer by Schulte Roth & Zabel LLP, New York, New York. Clifford Chance US LLP will act as special counsel to the Initial Purchaser. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Maples and Calder. Schulte Roth & Zabel LLP will also represent the Collateral Manager in this and other matters.

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

"Actual Interest Amount" means, with respect to each Credit Default Swap or Hedging Credit Default Swap and any Reference Obligation Payment Date, payment by or on behalf of the related Reference Entity of an amount in respect of interest due under the related Reference Obligation (including, without limitation, any deferred or defaulted interest, but excluding payments in respect of prepayment penalties or principal (except that the Actual Principal Amount shall include any payment of principal representing capitalized interest) paid to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, payment on such day by or on behalf of the related Reference Entity of a Reference Obligation of an amount in respect of principal (excluding any capitalized interest) to the holder(s) of the Reference Obligation in respect of such Reference Obligation.

"Additional Fixed Amount" means, with respect to a Credit Default Swap or a Hedging Default Swap and each Additional Fixed Amount Payment Date, an amount equal to the sum of: (a) the Writedown Reimbursement Payment Amount (if any); (b) the Principal Shortfall Reimbursement Payment Amount (if any); and (c) the Interest Shortfall Reimbursement Payment Amount (if any).

"Additional Fixed Amount Payment Dates" means, with respect to each Credit Default Swap or Hedging Credit Default Swap, (a) each Fixed Rate Payer Payment Date; and (b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after the Swap Counterparty (or, in the case of a Hedging Credit Default Swap, the Issuer) has received notification from the Issuer (or, in the case of a Hedging Credit Default Swap, the Swap Counterparty) or the CDS Calculation Agent of the occurrence of such Additional Fixed Payment Event.

"Additional Fixed Payment" means, with respect to each Credit Default Swap and Hedging Credit Default Swap, following the occurrence of an Additional Fixed Payment Event in respect of the related Reference Obligation, the Additional Fixed Amount payable by the Swap Counterparty (or, in the case of a Hedging Credit Default Swap, the Issuer) on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day) after the delivery of a notice by the CDS Calculation Agent to the parties or by the Issuer to the Swap Counterparty (or, in the case of a Hedging Credit Default Swap, by the Swap Counterparty to the Issuer) stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; *provided* that any such notice must be given on or prior to the fifth Business Day following the day that is 720 days after the Effective Maturity Date.

"Additional Fixed Payment Event" means the occurrence on or after the Effective Date and on or before the day that is 720 days after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.

"Additional Fixed Rate" means, for an additional Credit Default Swap, either the Swap Counterparty Additional Fixed Rate or a Qualifying Additional Fixed Rate selected by the Collateral Manager in the Additional CDS Fixed Rate Notice.

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"Administrative Expenses" means, with respect to any Distribution Date, (a) Trustee Expenses and (b) all amounts 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 (including indemnities) and including amounts necessary to cover the liquidation and winding-up costs of the Co-Issuers, (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 expenses pursuant to the Collateral Management Agreement (including indemnities), (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 and the Placement Agent in respect of indemnities and expenses payable to them under the Purchase Agreement, (vi) Standard & Poor's in respect of Rating Agency Expenses, (vii) any other Person in respect of any other fees or expenses (including indemnities) permitted under the Indenture and the documents delivered pursuant to or in connection with the Indenture and the Notes and (viii) any exchange or any listing agent or paying agent appointed in connection with the Notes or the Preference Shares on any exchange; *provided* that Administrative Expenses shall not include (A) any amounts due or accrued with respect to the actions taken on or in connection with the Closing Date, (B) amounts payable in respect of the Notes, (C) any Collateral Management Fee payable to the Collateral Manager and (D) amounts (other than any expenses or indemnities) payable under the Credit Default Swaps, the Hedging Credit Default Swaps, the Total Return Swap and the Supersenior Swap.

"Adjusted Amount Interest Rate" shall mean LIBOR with a Designated Maturity of three months as of the Original Payment Date.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

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

"Aggregate Portfolio Loss Amount" means, on any day, the excess, if any, determined in the aggregate with respect to the unhedged Credit Default Swaps, of (i) the cumulative aggregate sum of (a) all Writedown Amounts, Principal Shortfall Amounts and Physical Settlement Amounts and (b) all Relevant Determination Principal Adjustments paid or payable by the Issuer under the Credit Default Swaps over (ii) the cumulative aggregate sum of (a) all Writedown Reimbursement Amounts and Principal Shortfall Reimbursement Payment Amounts and (b) all Relevant Determination Principal Adjustments received by the Issuer under the Credit Default Swaps and (c) all Deliverable Obligation Sales Proceeds (other than any portion constituting Interest Proceeds) and Deliverable Obligation Payments (other than any portion constituting Interest Proceeds) received by the Issuer, in each case, on or prior to such day.

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

"Aggregate Reference Portfolio Amortization Amount" means, with respect to the Credit Default Swaps and any Due Period, (i) after the last day of the Reinvestment Period, the sum of the Due Period

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Hedged Notional Amount, the Deliverable Obligation Sales Proceeds and the Deliverable Obligation Payments (in each case, other than any portion thereof consisting of Interest Proceeds) received during the Due Period and the aggregate amount by which the Reference Pool Notional Amount of the Credit Default Swaps has been reduced during such Due Period by Principal Payments other than Principal Payments on Hedged Credit Default Swaps (after the Effective Dates for the Hedging Credit Default Swaps) or (ii) on or prior to the last day of the Reinvestment Period, any portion of the Available Reinvestment Amount as to which the Collateral Manager (in its sole discretion) elects not to enter into additional Credit Default Swaps, which amount is specified in a notice from the Issuer to the Swap Counterparty; *provided* that at the close of business on the last day of the Reinvestment Period, any remaining Available Reinvestment Amount shall be deemed to be part of the Aggregate Reference Portfolio Amortization Amount in the related Due Period.

"Applicable Percentage" means, for each Credit Default Swap or Hedging Credit Default Swap, on any day, a percentage equal to A divided by B. "A" means the product of the related Initial Face Amount for such Credit Default Swap or Hedging Credit Default Swap and the applicable Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations delivered to the Seller, divided by the Current Factor on such day multiplied by (b) the Initial Factor. "B" means the product of the Original Principal Amount of the related Reference Obligation and such Initial Factor:

(a) as increased by the outstanding principal balance or Certificate Balance of any further issues by the related Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and

(b) as decreased by any cancellations of some or all of the Outstanding Principal Amount of the Related Reference Obligation resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.

"Applicable Recovery Rate" means, with respect to any Reference Obligation or Deliverable Obligation on any Measurement Date, the lower of (i) an amount equal to the percentage for such Reference Obligation or Deliverable Obligation set forth in the Moody's recovery rate matrix set forth in Part I of Schedule C hereto in (a) the table corresponding to the relevant Specified Type, (b) the column in such table setting forth the Moody's Rating of such Reference Obligation or Deliverable Obligation as of the date of issuance thereof and (c) the row in such table opposite the ratio (expressed as a percentage) of (1) the issue of which such Reference Obligation or Deliverable Obligation is a part relative to (2) the total capitalization of (including both debt and equity securities) issued by the relevant issue of or obligor on such Reference Obligation or Deliverable Obligation, determined on the original issue date of such Reference Obligation or Deliverable Obligation and (ii) an amount equal to the percentage for such Reference Obligation or Deliverable Obligation set forth in the Standard & Poor's recovery rate matrix set forth in Part II of Schedule C hereto in (a) the applicable table, (b) the row in such table opposite the Standard & Poor's Rating of such Reference Obligation or Deliverable Obligation at issuance and (c) the column in such table below the then-current rating of the most senior Class of Notes outstanding.

"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

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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.

"Available Redemption Funds" means 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 Expense Account and the Payment Account, the proceeds of the Underlying Assets and the Deliverable Obligations, the Final Total Return Amounts payable by the Swap Counterparty under the Total Return Swap, plus any Swap Termination Payment payable by the Swap Counterparty (or, in the case of an Auction Call Redemption, the amount payable by any Eligible Dealer(s) to the Issuer), minus any Swap Termination Payment payable by the Issuer (or, in the case of an Auction Call Redemption, the amount payable by the Issuer to any Eligible Dealer(s)) plus the Unpaid Amount (if any) that is payable by the Swap Counterparty to the Issuer and minus the Unpaid Amount (if any) that is payable by the Issuer to the Swap Counterparty. For any Underlying Asset which is subject to the Total Return Swap or which matures on or prior to the Redemption Date, the Trustee may assume that the proceeds thereof will be equal to its principal amount or its Certificate Balance or, for any other Underlying Asset and any Deliverable Obligation, the Trustee shall assume that the proceeds are equal to the sale price thereof as certified to it by the Collateral Manager.

"Available Reinvestment Amount" means, as of any date of determination during the Reinvestment Period, the difference between (i) the sum, for all Due Periods during the Reinvestment Period, of (a) the Due Period Hedged Notional Amount, (b) the aggregate amount by which the Reference Pool Notional Amount has been reduced during such Due Period by all Principal Payments other than Principal Payments on Hedged Credit Default Swaps (after the Effective Date for the related Hedging Credit Default Swaps) and (c) the Deliverable Obligation Sale Proceeds (other than any portion thereof consisting of Interest Proceeds) and (ii) the sum of (a) Aggregate Reference Portfolio Amortization Amount (if any) for each Due Period during the Reinvestment Period, and (b) the aggregate Reference Obligation Notional Amount (as of the applicable Effective Date) of all Credit Default Swaps entered into by the Issuer after the Closing Date. After the Reinvestment Period, the Available Reinvestment Amount shall be zero.

"Average Life" means, with respect to a Reference Obligation on any date of determination, 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 date to the respective dates of each successive scheduled distribution of principal on such Reference Obligation and (b) the respective amounts of principal of such scheduled distributions by (ii) the sum of all successive scheduled distributions of principal on such Reference Obligation (as determined by the Collateral Manager).

"Average Reference Pool Notional Amount" means, with respect to any Quarterly Distribution Date, the average of the Reference Pool Notional Amount on the first day of the related Due Period and the last day of the related Due Period.

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

"Base Rate" means a fluctuating rate of interest determined by the Calculation Agent as being the rate of interest most recently announced by the Base Rate Reference Bank at its New York office as its

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base rate, prime rate, reference rate or similar rate for Dollar loans. Changes in the Base Rate will take effect simultaneously with each change in the underlying rate.

"Base Rate Reference Bank" means LaSalle Bank National Association or, if such bank ceases to exist or is not quoting a base rate, prime rate reference rate or similar rate for Dollar loans, such other major money center commercial bank in New York City as is selected by the Calculation Agent (after consultation with the Collateral Manager).

"Business Day" means a day on which commercial banks are open for business in each of New York, London, and the city in which the corporate trust office of the Trustee is located and, in the case of the final payment of principal of any Note, the place of presentation of such Note; *provided* that the Trustee will notify the Swap Counterparty in writing (i) if any day will not be a Business Day in the city in which the Corporate Trust Office is located (if it would otherwise be a Business Day) and (ii) if the Trustee changes the location of the Corporate Trust Office. 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 Agent City" means London and New York.

"Calculation Amount" means, with respect to a Defaulted Reference Obligation or a Deliverable Obligation at any time, the lesser of (i) the fair market value of such Defaulted Reference Obligation or Deliverable Obligation and (ii) the amount obtained by multiplying the Applicable Recovery Rate by the Reference Obligation Notional Amount of such Defaulted Reference Obligation or the principal amount or Certificate Balance of such Deliverable Obligation, as applicable.

"CDO of CDO Securities" means CDO Securities with respect to which more than 35% of the underlying assets consist of other CDO Securities.

"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; (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.

"CDS Calculation Agent" means the calculation agent under the Credit Default Swaps and the Hedging Credit Default Swaps.

"Certificate Balance" means the certificate balance in a trust which pays interest at a certificate rate and for which the applicable Underlying Instruments do not provide for events of default.

"Class" means each of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes.

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"Class C Deferred Interest Amount" means so long as any Class A 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 D Deferred Interest Amount" means so long as any Class A 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.

"CLO Security" means any CDO Security as to which at least 80% of the aggregate principal amount of the underlying portfolio consists of commercial or industrial loans or obligations.

"Closing Date" means September 22, 2005.

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

"CMBS Credit Tenant Lease Securities" means Asset-Backed Securities (other than CMBS Large Loan Securities and CMBS Conduit Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties leased to corporate tenants (or on the cash flow from such leases). 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

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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.

"Collateral TRS Payment Amount" means, as of any date of determination, the sum, for each Underlying Asset in the UA Collateral Subaccount (not including UA Eligible Investments) of an amount equal to the following formula:

(100%-(Underlying Asset Market Value * Underlying Valuation Percentage))* the Certificate Balance or principal amount of such Underlying Asset (excluding any portion thereof equal to the sum of any unpaid Rounding Shortfall).

"Consolidation Redemption Event" means a determination of the Swap Counterparty's outside accountants or regulators that the Issuer is required to be consolidated for accounting purposes with the Swap Counterparty or any affiliate thereof, or the determination by such outside accountants that they are unable to provide an unqualified opinion with respect to financial statements showing the Issuer (or such other vehicle) as unconsolidated with the Swap Counterparty or any affiliate thereof.

"Corporate CDO Security" means any CDO Security for which over 10% of the aggregate principal balance of the underlying portfolio consists of commercial or industrial loans or obligations or corporate debt securities, achieved via cash or synthetically.

"Counterparty Rating Requirements" means that the counterparty (or its credit support provider, if applicable) has a short-term unsecured debt rating or counterparty rating (or its equivalent) of "A-1+" by Standard & Poor's or, if there is no such short-term rating by Standard & Poor's, a long-term unsecured debt rating (or its equivalent) of at least "AA-" by Standard & Poor's.

"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.

"Credit Derivatives Definitions" means the 2003 ISDA Credit Derivatives Definitions.

"Credit Support Default" means (i) the failure by the Swap Counterparty or the Swap Guarantor to comply with or perform any agreement or obligation to be complied with or performed by it in

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accordance with the Guaranty if such failure is continuing after any applicable grace period has elapsed; (ii) the expiration or termination of such Guaranty or the failing or ceasing of such Guaranty to be in full force and effect for the purpose of the Master Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of the Swap Counterparty under each transaction to which such Guaranty relates without the written consent of the Issuer; or (iii) the Swap Counterparty or such Swap Guarantor disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, the Guaranty.

"Cumulative Interest Shortfall Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the greater of: (a) zero; and (b) an amount equal to: (i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; plus (ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus (iii) an amount determined by the CDS Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; minus (iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Additional Fixed Amount Payment Date. Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; *provided*, *however*, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

"Cumulative Interest Shortfall Payment Amount" means, with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date, an amount equal to the greater of: (a) zero; and (b) the amount equal to: (i) the sum of: (A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and (B) the product of (1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and (2) the relevant Cumulative Interest Shortfall Payment Compounding Factor; minus (ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date. With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to: (x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus (y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date. Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; *provided*, *however*, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during

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such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

"Cumulative Interest Shortfall Payment Compounding Factor" means, with respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of: (a) 1.0; plus (b) the product of: (i) the sum of (A) the Fixed Rate and (B) the Relevant Rate; and (ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360; *provided, however*, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

"Current Factor" means, for each Credit Default Swap or Hedging Credit Default Swap, the factor of the related Reference Obligation as specified in the most recent Servicer Report; provided that if the Current Factor is not specified in the most recent Servicer Report, the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the Servicer Report over (ii) the Original Principal Amount.

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of: (i) zero; and (ii) the product of: (A) the Implied Writedown Percentage; and (B) the greater of: (1) zero; and (2) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (all such outstanding asset pool balances as obtained by the CDS Calculation Agent from the most recently dated Servicer Report available as of such day), calculated based on the face amount of the assets in such pool, whether or not any such asset is performing.

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

"Dealers" means: ABN AMRO N.V.; Bank of America Corporation; The Bear Stearns Companies Inc.; BNP Paribas; Citigroup; Canadian Imperial Bank of Commerce; Commerzbank AG; Credit Suisse First Boston; Deutsche Bank AG; Dresdner Bank AG; Goldman, Sachs Group Inc.; HSBC Bank PLC; J.P. Morgan Chase & Company; Lehman Brothers; Merrill Lynch & Co., Inc.; Morgan Stanley & Co. Incorporated; Nomura International Plc; Rabobank International; RBS Greenwich; Salomon Brothers Inc.; Société Générale; UBS AG; West LB; and the lead manager of the relevant Reference Obligation, unless such lead manager is MLI or any of its affiliates; any affiliate of or successor to any of the foregoing and any other dealer selected by the CDS Calculation Agent; *provided* that if one of the Dealers from the above list ceases or has ceased to exist or a Bankruptcy (as if the definition thereof in Section 4.2 of the Credit Derivatives Definitions applied to it) occurs with respect to any Dealer, or if any Dealer (other than ML&Co.) will become an affiliate of the Issuer or the Swap Counterparty, then the CDS Calculation Agent will select a substitute Dealer (which is a dealer in Asset Backed Securities) and notify the Issuer of such selection.

"Defaulted Deliverable Obligation" means any Deliverable Obligation that has any of the characteristics of a Defaulted Reference Obligation.

"Defaulted Reference Obligation" means, as determined by the Collateral Manager, any Reference Obligation:

(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 Reference Obligation will not be classified as a "Defaulted Reference Obligation" 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-

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fraud related reasons and such default does not continue for more than five Business Days (or, if earlier, until the next succeeding Determination Date) or (ii) such payment default or failure to pay has been cured by the payment of all amounts that were originally scheduled to have been paid;

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

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

(4) that is rated "CC," "D" or "SD" (or has had its rating withdrawn) by Standard & Poor's and the definition of Standard & Poor's Rating will not apply for purposes of this clause; *provided* that, if the Rating Condition is satisfied, this clause (4) may be changed by written notice from the Collateral Manager to the Issuer and to the Trustee;

The Collateral Manager shall be deemed to have knowledge only of information actually received by any portfolio manager employed by the Collateral Manager who performs portfolio management functions for the Issuer or by any credit analyst who performs credit analysis functions for such portfolio manager with respect to the Issuer. Notwithstanding the foregoing, the Collateral Manager may declare any Reference Obligation to be a Defaulted Reference Obligation if, in the Collateral Manager's reasonable business judgment, the credit quality of the issuer of such Reference Obligation 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.

"Deferred Interest PIK Security" means as of any date of determination, any PIK Reference Obligation that is subject to a PIK Reference Obligation Event.

"Deliverable Obligation Payments" means cash payments received by the Issuer in respect of any Deliverable Obligations (other than Deliverable Obligation Sales Proceeds).

"Deliverable Obligation Sale Date" means the settlement date with respect to sale of a Deliverable Obligation by the Issuer.

"Deliverable Obligation Sales Proceeds" means net cash proceeds of the sale, redemption or other disposition of any Deliverable Obligation received by the Issuer.

"Delivery Amount" has the meaning given to such term in the CSA.

"Delivery Date" means, with respect to a Physical Settlement, the date on which the related Deliverable Obligation is delivered.

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

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

"Distressed Ratings Downgrade" means, with respect to a Reference Obligation: (i) if publicly rated by Standard & Poor's and Moody's on the Effective Date, the rating of such Reference Obligation is downgraded to "CCC-" or lower (or "CC" or lower in the case of a CDO Security) by Standard & Poor's and "Ca" or lower by Moody's (and, unless the rating from Moody's is "C" or lower, at least six months have elapsed since the downgrade to "Ca" by Moody's and such rating has not been restored to a rating that is at least "Caa" during such six-month period); (ii) if publicly rated by Standard & Poor's and not publicly rated by Moody's on the Effective Date, the rating of such Reference Obligation is downgraded to "CCC-" or lower (or "CC" or lower in the case of a CDO Security) by Standard & Poor's; (iii) if publicly rated by Moody's and not publicly rated by Standard & Poor's on the Effective Date, the rating of such Reference Obligation is downgraded to "Ca" or lower by Moody's (and, unless the rating from Moody's is "C" or lower, at least six months have elapsed since the downgrade to "Ca" by Moody's and such rating has not been restored to a rating that is at least "Caa"); or (iv) if publicly rated by Fitch and not publicly rated by either Standard & Poor's or Moody's on the Effective Date, the rating of such Reference Obligation is downgraded to "CC" or lower by Fitch.

"DO Collateral Subaccount" means a subaccount of the Collateral Account to which any Deliverable Obligations received by the Issuer are credited.

"Downgrade Event" means the occurrence of a downgrade by Standard & Poor's of its rating of the Notes (i) with respect to the Class A Notes, to "AA+" or below, (b) with respect to the Class B Notes, to "AA-" or below, (c) with respect to the Class C Notes, to "BBB+" or below or (d) with respect to the Class D Notes, to "BB" or below.

"Due Period Hedged Notional Amount" means, for any Due Period, the Reference Obligation Notional Amount of Credit Default Swaps which became Hedged Credit Default Swaps during such Due Period determined as of the Effective Date for the Hedging Credit Default Swap.

"Early Termination Date" means any date designated as such under the Master Agreement, following an "event of default" or "termination event" under the Master Agreement.

"Effective Date" means the date on which the Issuer and the Swap Counterparty enter into a Credit Default Swap or a Hedging Credit Default Swap with respect to a Reference Obligation and such Credit Default Swap or Hedging Credit Default Swap, as applicable, is effective.

"Effective Maturity Date" means, with respect to a Credit Default Swap or Hedging Credit Default Swap, the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Eligible Dealer" means (i) a counterparty which the Swap Counterparty has determined meets the following criteria: (1) it has an executed ISDA Master Agreement with the Swap Counterparty or agrees to execute promptly an ISDA Master Agreement with the Swap Counterparty with terms acceptable to the Swap Counterparty, (2) it agrees to assume all of the Issuer's obligations under each Credit Default Swap and Hedging Credit Default Swap, (3) it is a Dealer, (4) it satisfies the Counterparty

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Rating Requirements and (5) it satisfies the Swap Counterparty's legal and credit criteria in accordance with the credit and legal policies of the Swap Counterparty in effect at the time of such assignment or (ii) the Collateral Manager or an Affiliate thereof, if it agrees to execute promptly an ISDA Master Agreement with the Swap Counterparty with terms acceptable to the Swap Counterparty and to assume all of the Issuer's obligations under each Credit Default Swap and Hedging Credit Default Swap, *provided*, that in each case, on the date of and following the transfer of each Credit Default Swap and Hedging Credit Default Swap to be governed under the executed Master Agreement between the Swap Counterparty and the replacement seller (which may be the Collateral Manager or an Affiliate thereof) (a) the Swap Counterparty will not be required to pay to the transferee an amount in respect of any Indemnifiable Tax under Section 2(d)(i)(4) of the Master Agreement greater than the amount in respect of which the Swap Counterparty would have been required to pay in the absence of such transfer; (b) the Swap Counterparty will not receive a payment from the transferee from which an amount has been withheld or deducted, on account of a Tax under Section 2(d)(i) of the Master Agreement, in excess of that which would have been required to be so withheld or deducted in the absence of such transfer; and (c) no potential "event of default", "event of default" or "termination event" under the Master Agreement would occur as a result of such transfer.

"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 "AA+" by Standard & Poor's in the case of long-term debt obligations, or "A-1" by Standard & Poor's in the case of commercial paper and short term debt obligations including time deposits; *provided* that, 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;

(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 "AA+" by Standard & Poor's or whose short term credit rating is "A-1+" by Standard & Poor's at the time of such investment; *provided* that, if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's;

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(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 "AA+" by Standard & Poor's;

(f) commercial paper or other short term obligations with a maturity of not more than 183 days from the date of issuance and having at the time of such investment a credit rating of "A-1+" by Standard & Poor's; *provided* that, if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's;

(g) Registered reinvestment agreements issued or guaranteed by any bank, or a Registered reinvestment agreement issued or 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 "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 have at the time of such investment a long-term credit rating of not less than "AA+" by Standard & Poor's; and

(h) interests in any money market fund or similar investment vehicle having at the time of investment therein a rating of "AAAm" by Standard & Poor's; *provided* that such fund or vehicle is formed and has its principal office outside the United States;

and, in each case (other than clause (a), (g) or (h)), with a stated maturity (giving effect to any applicable grace period) no later than the Business Day immediately preceding the Distribution Date next following the Due Period in which the date of investment occurs; *provided* that Eligible Investments may not include (a) any mortgaged-backed security, (b) any security that does not provide for payment or repayment of a stated principal amount in one or more installments, (c) any security purchased at a price in excess of 100% of the par value thereof, (d) any investment the income from or proceeds of disposition of which is or will be subject to reduction for or on account of any withholding or similar tax, (e) any security the acquisition (including the manner of acquisition), ownership, enforcement or disposition of which will subject the Issuer to net income tax in any jurisdiction, (f) any floating rate security (other than the time deposits described in paragraph (c) above) whose interest rate is inversely or otherwise not proportionately related to an interest rate index or is calculated as other than the sum of an interest rate index plus or minus a spread; (g) any security whose rating by Standard & Poor's includes the subscript "r," "t," "p," "pi" or "q", (h) any security that is subject to an Offer; or (i) any security that the Collateral Manager determines to be subject to substantial non-credit-related risk. 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.

"Estimated Fixed Amounts" means, (i) on the Closing Date, U.S.$1,826,240.60, and (ii) for any Due Period, an amount equal to the estimated Fixed Amounts (net of the Initial Payment and any Fixed Amounts paid by the Issuer to the Swap Counterparty under Hedging Credit Default Swaps) during the immediately preceding Due Period, with the adjustments determined by the Swap Counterparty to be necessary to account for any reductions or increases in the Reference Obligation Notional Amount.

"Estimated TRS Payment Amount" means, (i) on the Closing Date, U.S.$1,474,958.33, and (ii) as of any other date of calculation, an amount equal to the Total Return Swap LIBOR Payment on the immediately prior Swap Counterparty TRS Payment Date (or, with respect to the first valuation date under the CSA, an amount equal to the Total Return Swap LIBOR Payment that is expected to be due on the first Swap Counterparty TRS Payment Date) with the adjustments determined by the Swap Counterparty in good faith (and based upon Publicly Available Information or another source of

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information produced by or on behalf of the relevant Reference Entity or information from the Trustee or the Issuer) to be necessary to account for Physical Settlement Amounts, Floating Amounts and principal payments on the Notes or other events known to the Swap Counterparty that will increase or decrease such payments.

"Event Determination Date" means the date on which both the Credit Event Notice and the Notice of Publicly Available Information are effective under a Credit Default Swap.

"Excepted Property" means (a) the Preference Share Payment Account and all of the funds and other property from time to time deposited in or credited to the Preference Share Payment Account and the proceeds thereof, (b) the U.S.$250 of capital contributed by the owners of the Issuer's ordinary shares in accordance with the Preference Share Documents and U.S.$250 representing a profit fee to the owners of the Issuer's ordinary shares, together with, in each case, any interest accruing thereon and the bank account in which such cash is held and (c) the membership interests of the Co-Issuer and any assets of the Co-Issuer.

"Exercise Amount" means an amount equal to the product of (i) the original face amount of the Reference Obligation to be delivered by the Swap Counterparty to the Issuer (or, in the case of a Hedging Credit Default Swap, by the Issuer to the Swap Counterparty) on any Physical Settlement Date and (ii) the Current Factor. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of the Reference Obligation specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount thereof.

"Exercise Percentage" means, with respect to a Credit Default Swap or a Hedging Credit Default Swap and a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligation specified in such Notice of Physical Settlement divided by an amount equal to (i) the Initial Face Amount minus (ii) the aggregate of the sum of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Excluded Synthetic ABS CDO Security" means any Synthetic ABS CDO Security that contains an underlying derivative transaction (or an instrument the underlying assets of which comprise one or more underlying derivative transactions) for which (i) the seller of credit protection (the "Protection Seller") under a credit derivative transaction (or any other derivative transaction which contains characteristics of a credit derivative transaction) undertakes to make payments to the buyer of credit protection (the "Protection Buyer"), in respect of interest shortfalls on one or more Reference Obligations under such derivative transaction (an "Interest Shortfall Undertaking") and (ii) either, no interest shortfall cap is applicable or, a "Variable Cap" rather than a "Fixed Cap" is applicable, i.e., an interest shortfall cap pursuant to which the amount of interest shortfall payable in respect of an interest period by the Protection Seller shall not be limited to the premium payable to such Protection Seller for such interest period.

"Expected Interest Amount" means, with respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period

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calculated using the Reference Obligation Coupon on a principal balance of the related Reference Obligation equal to (a) the Outstanding Principal Amount thereof, taking into account any reductions due to a principal deficiency balance or realized loss amount (howsoever described in the Underlying Instruments) that are attributable to such Reference Obligation minus (b) the Aggregate Implied Writedown Amount (if any) that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to the effect of any limited recourse provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds pursuant to an available funds cap or otherwise, that provide for the capitalization or deferral of interest on the Reference Obligation, or that provide for the extinguishing or reduction of such payments or distributions (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the terms of the Underlying Instruments).

"Expected Principal Amount" means, with respect to a Reference Obligation and its Final Amortization Date or Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of such Reference Obligation payable on such day assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to such Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any limited recourse provisions (however described) of the related Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Final Amortization Date" means, with respect to a Credit Default Swap or Hedging Credit Default Swap, the first to occur of (i) the date on which the related Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the related Reference Obligation or designated to fund amounts due in respect of such Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Final Price" means, with respect to an Underlying Asset the highest firm price (excluding accrued interest) for the purchase of the entire TRS Outstanding Principal Amount of such Underlying Asset (or, in the case of a Replacement, the portion of such Underlying Asset being reduced or replaced), expressed as a percentage, as determined by the TRS Calculation Agent on the TRS Termination Date; *provided* that the Issuer shall have the right to require the TRS Calculation Agent to request as many as three firm bids for the Underlying Asset for settlement on the applicable TRS Termination Date, from each of three market-makers or other market participants designated by the Issuer and agreed to by the TRS Calculation Agent; and *provided further* that (A) such agreement shall not be unreasonably withheld or delayed by the TRS Calculation Agent and (B) except in connection with an Elective Replacement, at the Swap Counterparty's election, the Swap Counterparty or its designated affiliate may be one of such three market-makers; provided that if no firm bid is obtained for the Underlying Asset then the Final Price shall be deemed to be zero percent.

"Final Total Return Amount" means, with respect to any TRS Termination Date and an Underlying Asset, an amount, which may be positive or negative, as determined by the TRS Calculation Agent, equal to the product of (i) the Final Price minus 100% and (ii) the TRS Outstanding Principal Amount as of such TRS Termination Date, after giving effect to any payment of principal in respect of the Underlying Asset on such date (or, in the case of a partial termination, the portion thereof being terminated).

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"Fitch" means Fitch Ratings.

"Fixed Amount" means, with respect to a Credit Default Swap or Hedging Credit Default Swap and any Fixed Rate Payer Payment Date, an amount equal to the product of: (a) the Fixed Rate; (b) an amount determined by the CDS Calculation Agent equal to: (i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in New York or London on each day in the related Fixed Rate Payer Calculation Period; divided by (ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

"Fixed Rate" means, for each Credit Default Swap or Hedging Credit Default Swap, the per annum fixed rate at which the applicable Fixed Amount accrues.

"Fixed Rate Payer Calculation Period" means, with respect to any Fixed Rate Payer Payment Date, the relevant Reference Obligation Calculation Period corresponding to the related Reference Obligation Payment Date.

"Fixed Rate Payer Payment Dates" means, for each Credit Default Swap or Hedging Credit Default Swap, each day falling five Business Days after a Reference Obligation Payment Date, *provided*, that the final Fixed Rate Payer Payment Date will fall on the fifth Business Day following the Effective Maturity Date.

"Fixed Rate Payer Period End Date" means, for each Credit Default Swap or Hedging Credit Default Swap, the first day of each Reference Obligation Calculation Period.

"Floating Amount" means, with respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and (c) the relevant Interest Shortfall Payment Amount (if any).

"Floating Amount Event" means a Writedown, Failure to Pay Principal or an Interest Shortfall.

"Floating Payments" means, with respect to each Credit Default Swap or Hedging Credit Default Swap if a Floating Amount Event occurs, the Floating Amount payable by the Issuer to the Swap Counterparty (or, in the case of a Hedging Credit Default Swap, by the Swap Counterparty to the Issuer) on the relevant Floating Rate Payer Payment Date.

"Floating Rate Payer Payment Dates" means, in relation to a Floating Amount Event, in the case of an Interest Shortfall, the first Fixed Rate Payer Payment Date and otherwise, the first Distribution Date, in either case, falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the CDS Calculation Agent to the parties or a notice by the Swap Counterparty to the Issuer (or, in the case of a Hedging Default Swap, by the Issuer to the Swap Counterparty) that the related Floating Amount is due, which notice shall satisfy the requirements of a Notice of Publicly Available Information; *provided* that in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, such notice must be given on or prior to the fifth Business Day following the Legal Final Maturity Date or the Final Amortization Date, as applicable.

"Floating Rate Reference Obligation" means any Reference Obligation that is expressly stated in the Underlying Instrument to bear interest based on a floating rate index specified therein.

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"Funded Amount Trigger Date" means the date on which (i) the Aggregate Portfolio Loss Amount less the principal amount or Certificate Balance of the Deliverable Obligations (which have been held by the Issuer for less than 720 days) credited to the DO Collateral Subaccount is greater than (ii) the Supersenior Threshold Amount.

"Guaranteed Asset-Backed 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 or a Multiline Insurer organized under the laws of a state of the United States.

"Hedged Credit Default Swaps" means Credit Default Swaps as to which the Issuer has entered into Hedging Credit Default Swaps. In the event that a Hedging Credit Default Swap has a notional amount that is less than the notional amount of the related Credit Default Swap, only the portion of the notional amount of the Credit Default Swap corresponding to the Hedging Credit Default Swap shall be a Hedged Credit Default Swap.

"Hedged Notional Amount" means the aggregate Reference Obligation Notional Amount of the Hedging Credit Default Swaps.

"Hedging Fixed Rate" means, for a Hedging Credit Default, either the Swap Counterparty Hedging Fixed Rate or a Qualifying Hedging Fixed Rate selected by the Collateral Manager in the Hedging Fixed Rate Notice.

"Holdback Amount" means, with respect to the Unsettled Credit Events on each Mandatory Redemption Date and the Stated Maturity, an amount equal to the aggregate Physical Settlement Amounts that would be payable under the Credit Default Swaps with respect to Unsettled Credit Events.

"Holdback Release Amount" means, on the Notice Delivery Period Expiration Redemption Date, the excess (if any) of the aggregate principal amount or Certificate Balance of the Underlying Assets in the UA Collateral Subaccount over the Physical Settlement Amounts which will be payable in respect of the Unsettled Credit Events.

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

"Hybrid Trust Preferred Securities" means CDO Securities 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

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preferred securities issued by wholly-owned trust subsidiaries of insurance holding companies and U.S. financial institutions, which use the proceeds of such issuance to purchase portfolios of debt securities issued by their parent, and capital notes issued by an insurance company or insurance holding company.

"Implied Writedown Amount" means, with respect to a Reference Obligation, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the CDS Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means, with respect to a Reference Obligation, (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, with respect to a Reference Obligation, (i) if the related Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of such Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the CDS Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Information Provider" means, with respect to any Reference Obligation, the trustee, paying agent or other information provider pursuant to the related Underlying Instruments.

"Initial Face Amount" means, for each Credit Default Swap or Hedging Credit Default Swap, the original par amount thereof.

"Initial Factor" means, for each Credit Default Swap or Hedging Credit Default Swap, a ratio, expressed as a percentage, equal to the Outstanding Principal Amount of the related Reference Obligation as of the Effective Date, divided by the Original Principal Amount thereof.

"Initial Payment" means in respect of those Credit Default Swaps having an Effective Date of July 15, 2005, an amount equal to the accrued Fixed Amounts payable thereunder from July 15, 2005 through the Closing Date.

"Initial Redemption Date" means the Stated Maturity or such earlier date on which the Notes are first redeemed as a result of the occurrence of an Accelerated Maturity Date following an Event of Default, an Optional Redemption, a Tax Redemption, an Auction Call Redemption or a Mandatory Redemption.

"Insurance Trust Preferred CDO Securities" means CDO Securities 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.

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"Interest and Fees" means, with respect to an Underlying Asset, (i) any interest payable to a holder of such Underlying Asset in respect of and pursuant to the terms of the related Underlying Instruments (including regularly scheduled interest and any interest payable on such amount pursuant to the terms thereof because such interest was not timely paid), (ii) any amounts payable to a holder of such Underlying Asset that have accreted in accordance with the terms of the related Underlying Instruments and (iii) any commitment fees, make-whole amounts, redemption premium, amendment fees, collateral realization amounts, insurance payouts and other fees and amounts received by a holder of such Underlying Asset (whether paid by the issuer thereof, a trustee or paying agent in respect of such Underlying Asset or any other similar entity or obligor in respect of such Underlying Asset to a holder of such Underlying Asset) that do not constitute a payment of principal of such Underlying Asset.

"Interest Coverage Ratio" means a ratio calculated by dividing:

(a) the sum (without duplication) of (i) the Initial Payment (in the case of the first Due Period) and the Swap Counterparty Premium Payment (other than Fixed Amounts with respect to any Credit Default Swap for which the Reference Obligation is a Defaulted Reference Obligation and there is no Hedging Credit Default Swap) due (regardless of whether the applicable due date has yet occurred) in the Due Period, plus (ii) the interest paid prior to the Distribution Date relating to such Due Period (or scheduled to be paid prior to the Distribution Date relating to such Due Period regardless of whether the applicable due date has yet occurred) on investments in the Collateral Account not subject to the Total Return Swap and the Total Return Swap LIBOR Payment scheduled to be paid on the Distribution Date relating to such Due Period to the Issuer by the Swap Counterparty under the Total Return Swap, plus (iii) the amount, if any, which will be transferred from the Expense Account to the Payment Account on the Business Day prior to the Distribution Date relating to such Due Period minus (iv) the amount, if any, scheduled to be paid to the payment of taxes and filing and registration fees owed by the Co-Issuers on the Distribution Date relating to such Due Period minus (v) the amount, if any, scheduled to be applied on the Distribution Date relating to such Due Period (A) to the payment to the Trustee, the Collateral Administrator, the Preference Share Paying Agent, the Note Registrar, the Collateral Manager and the Administrator of accrued and unpaid Administrative Expenses and (B) to the payment of other accrued and unpaid Administrative Expenses of the Co-Issuers, in each case, owing to them under clause (2) under the Interest Proceeds Waterfall, minus (vi) the amount, if any, scheduled to be paid to the Collateral Manager of accrued and unpaid Senior Collateral Management Fee for such Distribution Date, minus (vii) the amount, if any, scheduled to be paid to the Swap Counterparty pursuant to the Supersenior Swap of accrued and unpaid Structuring Fee for such Distribution Date; by

(b) the Supersenior CDS Premium, the Supersenior Funded Amount Interest and the Interest Distribution Amount for the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes payable on the Distribution Date relating to such Due Period.

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

For purposes of calculating the Interest Coverage Ratio, (i) the expected interest income on the Credit Default Swaps (including an estimate of the Fixed Amounts, the Floating Amounts and the Additional Fixed Amounts which the Swap Counterparty expects to be payable during the remainder of the Due Period), the Total Return Swap LIBOR Payment related to the Total Return Swap and the expected interest payable on the Notes and amounts, if any, payable under any Credit Default Swap or Hedging Credit Default Swap or the Total Return Swap will be calculated using the interest rates applicable thereto on the applicable Effective Date; (ii) accrued original issue discount on Eligible Investments will be deemed to be a scheduled interest payment thereon due on the date such original issue discount is scheduled to be paid; (iii) payments made to the Swap Counterparty pursuant to any Credit

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Default Swap or Hedging Credit Default Swap or the Total Return Swap will not constitute scheduled interest on any Class of Notes; and (iv) it will be assumed that no principal payments are made on the Notes during the applicable periods. The Issuer and the Trustee may rely on all estimates set forth above.

"Interest Coverage Test" means a test that is satisfied if the Interest Coverage Ratio is greater than or equal to 100%.

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

"Interest Period" means (i) in the case of the initial Interest Period, the period from and including the Closing Date to but excluding the first applicable Distribution Date and (ii) thereafter, the period from and including the Distribution Date immediately following the last preceding Interest Period, to but excluding the next succeeding Distribution Date; *provided* that, after the Initial Redemption Date, for any Class of Notes the Aggregate Outstanding Amount of which is not paid in full on the Initial Redemption Date, an Interest Period shall commence on (and include) the Initial Redemption Date (and each Distribution Date after the Initial Redemption Date) and end on (and exclude) any Distribution Date after the Initial Redemption Date, a LIBOR Determination Date shall occur on the second London Banking Day prior to the Initial Redemption Date and on the second London Banking Day prior to each subsequent Quarterly Distribution Date (and, solely for purposes of determining LIBOR and the definition of LIBOR Determination Date, a new Interest Period shall be deemed to commence on each Quarterly Distribution Date after the Initial Redemption Date) and a new LIBOR (for which the Designated Maturity shall be three months) shall be in effect on each Quarterly Distribution Date on or after the Initial Redemption Date.

"Interest Proceeds" means with respect to any Due Period, the sum (without duplication) of: (1) (x) with respect to any Underlying Assets for which the Total Return Swap is not in effect, all payments of interest on the Underlying Assets in the UA Collateral Subaccount received in cash by the Issuer during such Due Period and (y) with respect to any Underlying Assets for which the Total Return Swap is in effect, the Total Return Swap LIBOR Payment made on the Distribution Date following the Due Period; (2) 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 Eligible Investments, Deliverable Obligations (including any amount in respect of accrued interest included in Deliverable Obligation Sale Proceeds, but excluding, in respect of any Defaulted Deliverable Obligations, (i) any such accrued interest in an amount up to the excess of the par value of each such Defaulted Deliverable Obligation over the related Deliverable Obligation Sales Proceeds and (ii) any Deliverable Obligation Payments) and UA Eligible Investments, as applicable, in any Account (except the Counterparty Collateral Account and, if the Total Return Swap is in effect, in the UA Collateral Subaccount) and all payments of principal, including repayments, received in cash by the Issuer prior to the Distribution Date next following such Due Period of Eligible Investments purchased with amounts from the Interest Collection Account; (3) all amounts on deposit in the Expense Account that are transferred to the Payment Account for application as Interest Proceeds as described below under "Security for the Notes—The Accounts—Expense Account," respectively; (4) the aggregate Swap Counterparty Premium Payments made by the Swap Counterparty to the Issuer during such Due Period; (5) any Unpaid Amounts paid by the Swap Counterparty (or the equivalent payment by

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an Eligible Dealer) upon termination of the Master Agreement that are in respect of payments that would otherwise constitute Interest Proceeds; (6) any Supersenior Funded Amount Interest repaid to the Issuer by the Swap Counterparty on the Funded Amount Trigger Date pursuant to the Supersenior Swap; and (7) with respect to the first Due Period, the Initial Payment; *provided* that Interest Proceeds shall in no event include (i) any payment or proceeds specifically defined as "Principal Proceeds" in the definition thereof, (ii) any Excepted Property or (iii) any reserve which the Collateral Manager directs the Trustee to establish in the Interest Collection Account to pay Fixed Amounts on Hedging Credit Default Swaps. Payments received by or made by the Issuer under the Total Return Swap on or prior to a Distribution Date shall be deemed to have been received during the Due Period related to such Distribution Date.

"Interest Shortfall" means, with respect to a Reference Obligation and any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount. For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.

"Interest Shortfall Amount" means, with respect to a Reference Obligation and any Reference Obligation Payment Date, an amount equal to the greater of (a) zero; and (b) the amount equal to the product of: (i) (A) the Expected Interest Amount minus (B) the Actual Interest Amount, and (ii) the Applicable Percentage; *provided* that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to: (x) the number of days in the first Fixed Rate Payer Calculation Period; over (y) the number of days in the first Reference Obligation Calculation Period.

"Interest Shortfall Cap Amount" means, with respect to and Interest Shortfall, the related Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred.

"Interest Shortfall Payment Amount" means, in respect of an Interest Shortfall, the relevant Interest Shortfall Amount; *provided* that, if Interest Shortfall Cap is applicable and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.

"Interest Shortfall Reimbursement" means, with respect to a Reference Obligation and any Reference Obligation Payment Date, the payment by or on behalf of the related Reference Entity of an Actual Interest Amount in respect of the Reference Obligation (including, for the avoidance of doubt, any payment of principal representing capitalized interest) that is greater than the Expected Interest Amount.

"Interest Shortfall Reimbursement Amount" means, with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.

"Interest Shortfall Reimbursement Payment Amount" means, with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the CDS Calculation Agent in its notice to the parties or by the Issuer in its notice to the Swap Counterparty of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of: (a) zero; and (b) the amount equal to: (i) the product of: (A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and (B) the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately

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preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus (ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date; *provided* that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

"Intermediation Rate" means a *per annum* rate of 0.01%.

"Investor Application Form" means a form to be delivered by each Original Purchaser of Preference Shares pursuant to which it makes certain acknowledgements, representations, warranties and agreements specified therein.

"Legal Final Maturity Date" means, with respect to a Reference Obligation, the legal final maturity date thereof (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of such Reference Obligation), *provided* that if the legal final maturity date of such Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"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.

"Loss" means, with respect to the Credit Default Swaps and a party, the amount that party reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with the termination of the Credit Default Swaps including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss does not include a party's legal fees and out-of-pocket expenses. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"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.

"Management Fee Notional Amount" means, as of any date, the Reference Pool Notional Amount *plus* the Available Reinvestment Amount *plus* the principal balance of any Deliverable Obligations held in the DO Collateral Subaccount.

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

"Maturity Extension" means, with respect to a Reference Obligation, an extension by or on behalf of a Reference Entity of the Legal Final Maturity Date on or after the Effective Date, that is effected by an amendment to the Underlying Instruments occurring on or after the Effective Date.

"Measurement Date" means any date (i) on which the Issuer enters into an Additional Credit Default Swap or a Hedging Credit Default Swap or (ii) specified in writing to the Trustee and the

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Collateral Manager by the Swap Counterparty (in its capacity as counterparty under the Supersenior Swap).

"Money Management 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 fees and costs relating to various money management activities, *provided* that no Asset-Backed Securities with cash flows tied to an index or from 12b-1 fees or mutual fund fees shall be considered "Money Management Securities" under the Indenture.

"Monthly Measurement Date" means the date of each Monthly Report.

"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.

"Moody's" means Moody's Investors Service, Inc.

"Moody's Maximum Rating Distribution" means, with respect to all Reference Obligations other than Reference Obligations subject to Hedging Credit Default Swaps, a number determined by dividing (i) the summation of the series of products obtained for any such Reference Obligation that is not a Defaulted Reference Obligation, by multiplying (1) the Reference Obligation Notional Amount of each such Reference Obligation by (2) its respective Moody's Rating Factor by (ii) the Reference Pool Notional Amount less the Reference Obligation Notional Amounts of all Defaulted Reference Obligations and the Hedged Notional Amount and rounding the result up to the nearest whole number.

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

"Moody's Rating Factor" of any Reference Obligation is the number set forth in the table below opposite the Moody's Rating of such Reference Obligation:

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

If a Reference Obligation does not have a Moody's Rating, the Moody's Rating Factor with respect to such Reference Obligation shall be 10,000 until such time as the Reference Obligation has a Moody's Rating or another security or obligation of the Reference Entity is rated by Moody's or the Issuer

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seeks and obtains an estimate of a Moody's Rating Factor (in which case, the Moody's Rating Factor of such Reference Obligation will be deemed to be such estimate thereof as may be assigned by Moody's upon the request of the Issuer).

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

"Net Outstanding Portfolio Collateral Balance" means, as of any Measurement Date, an amount equal to (a) the Reference Pool Notional Amount as of such Measurement Date (other than in respect of Defaulted Reference Obligations which are not Hedged Credit Default Swaps) *plus* (b) the aggregate amount of all Principal Proceeds held as cash and the Aggregate Principal Balance of all Eligible Investments purchased with Principal Proceeds and any amount on deposit at such time in the Principal Collection Account (without duplication) *plus* (c) for each Defaulted Reference Obligation which is not a Hedged Credit Default Swap, the Calculation Amount with respect to such Defaulted Reference Obligation *plus* (d) the Calculation Amount with respect to each Deliverable Obligation *plus* (e) the aggregate amount of all Deliverable Obligation Sales Proceeds and Deliverable Obligation Payments since the Closing Date (other than any portion thereof that constitutes Interest Proceeds) *minus* (f) the Hedged Notional Amount; *provided* that, for purposes of calculating the Net Outstanding Portfolio Collateral Balance, if a Moody's rating or Standard & Poor's rating set forth in the table below is applicable to a Reference Obligation (other than a Defaulted Reference Obligation or a Hedged Credit Default Swap), then the Reference Obligation Notional Amount of such Reference Obligation shall be multiplied by the lowest "Discount Percentage" opposite the Moody's rating or Standard & Poor's rating applicable to such Reference Obligation in the tables below:

Moody's Rating	Discount Percentage	Floor Percentage
Ba1, Ba2 or Ba3	90%	10%
B1, B2 or B3	80%	0%
Below B3	50%	0%

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

Reference Obligations having a Moody's rating of "Ba1", "Ba2" or "Ba3" shall be excluded from the operation of the foregoing proviso so long as the aggregate Reference Obligation Notional Amount of all such Reference Obligations (determined without regard to the foregoing proviso) which are not Hedged Credit Default Swaps does not exceed the Floor Percentage of the Net Outstanding Collateral Balance (this Floor Percentage being satisfied first by the highest-rated Reference Obligation having a Moody's rating of "Ba1", "Ba2" or "Ba3") and thereafter the Discount Percentage shall only be applied to such Reference Obligations in excess of such Floor Percentage of the Net Outstanding Portfolio Collateral Balance.

The ratings and the amounts of the Discount Percentages and the Floor Percentages in the tables above may be modified (i) in the case of the table with respect to Moody's, if the Rating Condition with respect to Moody's has been satisfied and (ii) in the case of the table with respect to Standard & Poor's, if the Rating Condition with respect to Standard & Poor's has been satisfied.

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"Net Unreimbursed Floating Amount" means the aggregate of the Writedown Amounts, Interest Shortfall Payment Amounts and Principal Shortfall Amounts paid by the Issuer net of any Writedown Reimbursement Payment Amounts, Interest Shortfall Reimbursement Payment Amounts and Principal Shortfall Reimbursement Payment Amounts received by the Issuer.

"Notice Delivery Period" means the period from and including the Effective Date of a Credit Default Swap to and including the date that is 14 calendar days after the Termination Date of such Credit Default Swap; *provided* that the Notice Delivery Period will terminate with respect to a Reference Obligation on the Business Day immediately preceding the Termination Date, unless the Swap Counterparty delivers to the Issuer by written notice by 5:00 p.m. New York time on such Business Day to extend the Notice Delivery Period to the date that is 14 calendar days after the Termination Date of the related Credit Default Swap, specifying that the Swap Counterparty has made a preliminary determination that a Credit Event may have occurred with respect to such Reference Obligation or that the Swap Counterparty has been unable to confirm that a Credit Event has not occurred with respect to such Reference Obligation.

"Notice Delivery Period Expiration Redemption Date" means the second Business Day after the expiration of the Notice Delivery Period.

"Notional Amount" means, as of any date of determination, the aggregate principal amount or Certificate Balance of the Underlying Assets, and the balance of the UA Eligible Investments in the UA Collateral Subaccount (excluding any Interest and Fees payable to the Swap Counterparty as of such date and any Rounding Shortfalls outstanding on such date); *provided* that the Notional Amount may not exceed U.S.$150,000,000.

"Obligation Currency" means the currency or currencies in which the Reference Obligation is denominated.

"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.

"Offering" means the offering of the Offered Securities described in this Offering Circular.

"Offering Circular" means this Offering Circular.

"Original Purchaser" means a purchaser from the Issuer or the Initial Purchaser of an Offered Security in the initial distribution of Offered Securities.

"Original Principal Amount" means, with respect to a Reference Obligation, the original principal balance thereof on the date of issuance thereof.

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

"Outstanding Principal Amount" means, as of any date of determination with respect to a Reference Obligation, the outstanding principal balance or Certificate Balance thereof as of such date, which shall take into account (i) all payments of principal; (ii) all writedowns or applied losses (however described in the

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Underlying Instruments) resulting in a reduction in the outstanding principal balance or Certificate Balance of such Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal); (iii) forgiveness of any amount by the holders of such Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance or Certificate Balance of such Reference Obligation; (iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and (v) any increase in the outstanding principal balance or Certificate Balance of such Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition. For the avoidance of doubt, the "Outstanding Principal Amount" shall not include any portion of the principal balance of any Reference Obligation that is attributable to deferred, capitalized or "pay-in-kind" interest.

"Par Value Differential" means, as of any Measurement Date, Monthly Measurement Date or Distribution Date, the excess, if any, as determined by the Collateral Manager of (i) the sum of the Net Outstanding Portfolio Collateral Balance and the Available Reinvestment Amount, in each case, as of the Business Day Prior to the Measurement Date (in the case of a Measurement Date), on the last day of the calendar month before such Monthly Measurement Date (in the case of a Monthly Measurement Date) and the Determination Date (in the case of a Distribution Date) over (ii) the sum of the Aggregate Outstanding Amount of the Notes and the Supersenior Notional Amount as of the Measurement Date, the Monthly Measurement Date or related Determination Date, as applicable. On a Measurement Date or a Monthly Measurement Date, the Supersenior Notional Amount shall be reduced for this purpose by the portion of the Aggregate Reference Portfolio Amortization Amount for the Due Period, calculated by the Collateral Manager through (and including) the Measurement Date or such Monthly Measurement Date, as applicable. The definition of the Par Value Differential may be changed (without a supplemental indenture) by written notice of the Issuer to the Trustee upon the consent of the Swap Counterparty (in its capacity as counterparty under the Supersenior Swap).

"Par Value Differential Trigger Event" means a threshold reached on the date that the Par Value Differential first equals or is less than U.S.$16,875,000.

"Pari Passu Amount" means, with respect to a Reference Obligation and as of any date of determination, the aggregate of the Outstanding Principal Amount of such Reference Obligation and the aggregate outstanding principal balance and/or Certificate Balance of all obligations of the related Reference Entity secured by the Underlying Assets and ranking pari passu in priority with such Reference Obligation.

"Physical Settlement Period" means five Business Days.

"Physical Settlement Trigger Date" means the date on which (i) the Aggregate Portfolio Loss Amount less the principal amount or Certificate Balance of the Deliverable Obligations (which have been held by the Issuer for less than 720 days) credited to the UA Collateral Subaccount is greater than U.S.$247,500,000.

"PIK Reference Obligation" means a Reference Obligation which is specified on the Letter of Execution to be a PIK Reference Obligation.

"PIK Reference Obligation Event" means, with respect to a PIK Reference Obligation, that (a) an Unreimbursed Deferred Interest Amount is determined by the CDS Calculation Agent to have existed on at least (i) 24 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur monthly, 8 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur quarterly or 4 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur semiannually, and such PIK Reference Obligation was rated "A2" or

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higher by Moody's, "A" or higher by Standard & Poor's (if rated by Standard & Poor's) or "A" or higher by Fitch (if rated by Fitch) on the Effective Date, or (ii) 40 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur monthly, 14 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur quarterly or 7 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur semiannually, and such PIK Reference Obligation was not rated "A2" or higher by Moody's (if rated by Moody's), "A" higher by Standard & Poor's (if rated by Standard & Poor's) or "A" or higher by Fitch (if rated by Fitch) on the Effective Date, and (b) such Unreimbursed Deferred Interest Amount is at least USD 50,000 in aggregate.

"Placement Agent" means Gulf Investment Corporation, as placement agent with respect to certain of the Offered Securities pursuant to the Purchase Agreement.

"Pledged Securities" means on any date of determination, (a) the Underlying Assets, Deliverable Obligations, UA Eligible Investments and Eligible Investments that have been granted to the Trustee and (b) all non-cash proceeds thereof, in each case, to the extent not released from the lien of the Indenture pursuant thereto.

"Preference Share Holding Termination Date" means the earliest to occur of (i) the Distribution Date in September 2009, (ii) the first date that (a) ACA Capital Holdings, Inc. consolidates or amalgamates with, or merges with or into, or transfers all or substantially all of its assets to, another individual or entity or (b) the individuals and/or entities holding or controlling the voting securities of ACA Capital Holdings, Inc. on the Closing Date cease to own or control, directly or indirectly, in aggregate, at least 50% of the outstanding voting securities of ACA Capital Holdings, Inc. or (iii) removal or resignation of the Collateral Manager under the Collateral Management Agreement.

"Preference Share Payment Account" means a segregated bank account established by the Preference Share Paying Agent pursuant to the Preference Share Paying Agency Agreement into which the Preference Share Paying Agent shall deposit all amounts distributable to the holders of the Preference Shares under the Priority of Payments.

"Preference Share Redemption Date Amount" means, in respect of any Distribution Date, 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 such 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, Preference Shareholders (assuming for this purpose that they purchased the Preference Shares on the Closing Date) shall have received an amount which, together with all distributions prior to such date, equals the initial aggregate liquidation preference of the Preference Shares.

"Preference Shareholders" means the holders of the Preference Shares.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Amortization Release Amount" means, on any Distribution Date, the amount (if any) by which the Aggregate Reference Portfolio Amortization Amount for the related Due Period exceeds the sum of the Supersenior Notional Amount and the Supersenior Funded Amount immediately prior to such Distribution Date.

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"Principal Balance" or "par" means with respect to any Eligible Investment, as of any date of determination, the outstanding principal amount or certificate balance of such Eligible Investment; *provided* that 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.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the applicable Reference Obligation in respect of principal (scheduled or unscheduled) in respect of such Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Proceeds" means, with respect to any Distribution Date, the sum (without duplication) of: (1) (a) on each Mandatory Redemption Date or the Stated Maturity, all proceeds of the UA Collateral Subaccount (excluding interest and dividend income) in excess of the Holdback Amount and, if the Total Return Swap is in effect, the Final Total Return Amounts paid to the Issuer under the Total Return Swap (reduced by any Final Total Return Amounts paid by the Issuer under the Total Return Swap) or (b) on any other Redemption Date or the Accelerated Maturity Date, all proceeds of the UA Collateral Subaccount (excluding interest and dividend income) and, if the Total Return Swap is in effect, the Final Total Return Amounts paid to the Issuer under the Total Return Swap (reduced by any Final Total Return Amounts paid by the Issuer under the Total Return Swap); (2) on any other Distribution Date, the Principal Amortization Release Amount (if any) from the UA Collateral Subaccount (including, if the Total Return Swap is in effect, an amount in respect of the Principal Amortization Release Amount paid under the Total Return Swap); (3) any proceeds resulting from the termination and liquidation of the Master Agreement (other than Unpaid Amounts included in Interest Proceeds); (4) on each Distribution Date on or after the Initial Redemption Date, all payments of principal, including payments received in cash by the Issuer prior to the Distribution Date next following such Due Period, on Eligible Investments or UA Eligible Investments, as applicable, purchased with amounts in the Accounts (other than the Interest Collection Account, the Counterparty Collateral Account and the UA Collateral Subaccount); and (5) on each Distribution Date on or after the Initial Redemption Date, all Deliverable Obligation Sale Proceeds (other than any portion thereof consisting of accrued interest other than accrued interest in respect of Defaulted Reference Obligations in an amount up to the excess of the par value of each such Defaulted Deliverable Obligation over the related Deliverable Obligation Sales Proceeds), Deliverable Obligation Payments (other than any portion thereof consisting of accrued interest unless it is in respect of Defaulted Deliverable Obligations), Relevant Determination Principal Adjustments and Additional Fixed Amounts (other than an Interest Shortfall Reimbursement Amount); *provided* that in no event will Principal Proceeds include the U.S.$250 of capital contributed by the owners of the ordinary shares of the Issuer in accordance with the Preference Share Documents or U.S.$250 representing a profit fee to the Issuer or the proceeds of the Issuer's Cayman Islands account. Payments received by or made by the Issuer under the Total Return Swap or payments on or proceeds of the Underlying Assets on or prior to a Distribution Date shall be deemed to have been received during the Due Period related to such Distribution Date.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal in respect of any Reference Obligation, an amount equal to the greater of: (i) zero; and (ii) the amount equal to the product of: (A) the Expected Principal Amount minus the Actual Principal Amount thereof; (B) the Applicable Percentage; and (C) the Reference Price. If a Principal Shortfall Amount would be greater than the related Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay

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Principal, then the Principal Shortfall Amount will be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to a Reference Obligation and any day, the payment by or on behalf of the related Reference Entity of an amount in respect of such Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any Credit Default Swap or Hedging Credit Default Swap and any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to any Credit Default Swap or Hedging Credit Default Swap and an Additional Fixed Amount Payment Date thereunder, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, *provided* that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer (or, in the case of a Hedging Credit Default Swap, the Swap Counterparty) in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Prohibited Reference Obligation" means any Reference Obligation that is not a Specified Type of Asset-Backed Security.

"Publicly Available Information" means, with respect to any Credit Event, information that reasonably confirms any of the facts relevant to the determination that the Credit Event described in the Credit Event Notice has occurred and which (i) has been published in an internationally recognized printed or electronically displayed news source (including, without limitation, Bloomberg Service, Dow Jones Telerate Service, Reuter Monitor Money Rates Services, Dow Jones News Wire, Derivatives Week, Asset-Backed Alert, Asset Securitization Report, Creditflux, BondWeek, Bloomberg, Intex, Wall Street Journal, New York Times, Nihon Keizai Shinbun and Financial Times (and successor publications), regardless of whether the reader or user thereof pays a fee to obtain such information), (ii) is written information received from (A) a Reference Entity (that is not an affiliate of the Swap Counterparty or the Issuer or otherwise a party to the Credit Default Swap), (B) a trustee, fiscal agent, administrative agent, clearing agent, collateral administrator, originator, manager, servicer, master servicer or fiscal agent, *provided* that if the Swap Counterparty is providing a Notice of Physical Settlement, the Swap Counterparty or an Affiliate of the Swap Counterparty is acting in such capacity and the Swap Counterparty or Affiliate, as applicable, is the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless the Swap Counterparty or such Affiliate, as applicable, also delivers an officer's certificate executed by a managing director (or other substantively equivalent title) of the Swap Counterparty or such Affiliate, (C) is information contained in any petition or filing instituting a bankruptcy proceeding described in the Credit Derivatives Definitions against or by a Reference Entity, (D) is information contained in any order, decree, notice or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body or (E) is information that reasonably confirms any of the facts relevant to the determination that a Credit Event described in a Notice of Physical Settlement has occurred and that has been published in any report of a nationally recognized rating organization. Notwithstanding the foregoing, Intex shall not be considered a Public Source unless the Swap Counterparty (or, in the case of a Hedging Credit Default Swap, the Issuer) reasonably believes that Intex obtained its information with respect to a Reference Obligation from the most recent trustee report for such Reference Obligation delivered pursuant to the Underlying Instruments with respect to the related Reference Obligation.

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

"Qualifying Additional CDS Counterparty" means each Qualifying Additional CDS Dealer, *provided* that the quotes obtained by the Collateral Manager from any Qualifying Additional CDS Counterparty for Qualifying Additional Fixed Rates shall be firm quotes, capable of acceptance by the Swap Counterparty.

"Qualifying Additional CDS Dealer" means, certain dealers specified in the schedule to the Master Agreement, *provided* that any such entity may be removed from the list of Qualifying CDS Dealers at the request of the Swap Counterparty if the Swap Counterparty is prevented for any legal, compliance or regulatory reason or as a result of its internal credit risk guidelines or policies from entering into any credit default swap with such entity, and *provided further*, that in the event that there are less than three entities remaining on the list of Qualifying CDS Dealers for any reason, the Collateral Manager, with the prior written consent of the Swap Counterparty, may designate additional entities to act as Qualifying CDS Dealers.

"Qualifying Additional Fixed Rate" means, with respect to an additional Credit Default Swap, the excess (if any) of (i) the *per annum* rate obtained by the Collateral Manager at which a Qualifying Counterparty agrees to buy credit protection in an amount equal to the Reference Obligation Notional Amount from the Swap Counterparty on the Standard Terms applicable to such Reference Obligation and with a Scheduled Termination Date equal to the Scheduled Termination Date over (ii) the Intermediation Rate.

"Qualifying Hedging Counterparty" means each Qualifying Hedging Dealer, *provided* that the quotes obtained by the Collateral Manager from any Qualifying Counterparty for Qualifying Hedging Fixed Rates shall be firm quotes, capable of acceptance by the Swap Counterparty.

"Qualifying Hedging Dealer" means certain dealers specified in the schedule to the Master Agreement, *provided*, that any such entity may be removed from the list of Qualifying Hedging Dealers at the request of the Swap Counterparty if the Swap Counterparty is prevented for any legal, compliance or regulatory reason or as a result of its internal credit risk guidelines or policies from entering into any credit default swap with such entity, and *provided further*, that in the event that there are less than three entities remaining on the list of Qualifying Hedging Dealers for any reason, the Collateral Manager, with the prior written consent of the Swap Counterparty, may designate additional entities to act as Qualifying Hedging Dealers.

"Qualifying Hedging Fixed Rate" means, with respect to a Hedging Credit Default Swap, the sum of (i) the *per annum* rate obtained by the Collateral Manager at which a Qualifying Counterparty agrees to sell credit protection in respect of the specified Reference Obligation in an amount equal to the Reference Obligation Notional Amount thereof to the Swap Counterparty on the Standard Terms applicable to such Reference Obligation and with a Scheduled Termination Date equal to the Scheduled Termination Date and (ii) the Intermediation Rate.

"Rating" has the meaning given to such term in the Indenture.

"Rating Agencies" means Standard & Poor's and Moody's.

"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 Standard &

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Poor's for fees and expenses in connection with any rating (including the annual fee payable with respect to the monitoring of any rating and any credit estimate fees and amendment fees) of the Notes.

"Rating Condition" means, with respect to any action taken or to be taken under the Indenture, a condition that is satisfied when (i) Standard & Poor's has confirmed in writing to the Trustee and the Collateral Manager that such action will not result in the withdrawal, reduction or other adverse action with respect to any then-current rating (including any private or confidential rating) by Standard & Poor's of any Class of Notes and, unless otherwise specified herein, (ii) Moody's has confirmed in writing to the Trustee, the Collateral Manager and the Swap Counterparty that such action will not result in the withdrawal, reduction or other adverse action with respect to any then-current rating (including any private or confidential rating) with respect to a swap transaction entered into by the Swap Counterparty with a Supersenior Institution on the Closing Date.

"Real Property Asset-Backed Security" means any Residential A Mortgage Security, Residential B/C Mortgage Security, CMBS Conduit Security, CMBS Credit Tenant Lease Security, CMBS Large Loan Security or Home Equity Loan Security.

"Reference Dealers" means three major dealers in the secondary market for U.S. Dollar certificates of deposit, selected by the Calculation Agent (after consultation with the Collateral Manager).

"Reference Entity" means each issuer of a Reference Obligation.

"Reference Obligation Calculation Period" means, with respect to a Reference Obligation and each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

"Reference Obligation Coupon" means, with respect to each Reference Obligation, the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendments.

"Reference Obligation Notional Amount" means, with respect to each Credit Default Swap or Hedging Credit Default, on the Effective Date, the product of: (a) the Original Principal Amount of the related Reference Obligation; (b) the Initial Factor; and (c) the Applicable Percentage. Following the Effective Date, the Reference Obligation Notional Amount will be:

(i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount;

(ii) decreased on each day on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount (*provided*, that for purposes of calculating any Fixed Amount only, the Reference Obligation Notional Amount shall not be decreased by any Writedown Amount that occurs as a result of a Writedown set forth in paragraph (iii) of the definition of "Writedown");

(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement", *provided*, that for purposes of calculating any Fixed Amount only, the Reference Obligation Notional Amount shall not be increased by any Writedown

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Reimbursement Amount that occurs as a result of a Writedown Reimbursement set forth in paragraph (iii) of the definition of "Writedown Reimbursement"; and

(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the relevant amount determined pursuant to paragraph (b) of "Physical Settlement Amount";

provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero. For the avoidance of doubt, if the principal balance or Certificate Balance of the related Reference Obligation is increased as a result of deferred, capitalized or "pay-in-kind" interest after the Effective Date, such increase shall not be taken into account for purposes of the Reference Obligation Notional Amount.

"Reference Obligation Payment Date" means, with respect to a Reference Obligation, (i) each scheduled distribution date for such Reference Obligation occurring on or after the Effective Date of the related Credit Default Swap or Hedging Credit Default Swap and on or prior to the Scheduled Termination Date thereof, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Reference Policy" means, for each Credit Default Swap or Hedging Credit Default Swap, the insurance policy, guaranty or other credit support, if any, for the related Reference Obligation.

"Reference Portfolio" means the Credit Default Swaps and their related Reference Obligation Notional Amounts.

"Reference Price" means 100%.

"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.

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

"Reinvestment Period" means the period from and including the Closing Date to and including the earliest to occur of (i) the first Measurement Date, Determination Date or Monthly Measurement Date on which the Par Value Differential Trigger Event has occurred, (ii) the first Measurement Date that the Moody's Maximum Rating Distribution exceeds 500, (iii) the last day of the Due Period relating to the Distribution Date occurring in September 2009 and (iv) the first date that a Downgrade Event has occurred. If the Reinvestment Period ends based on clause (ii), it will recommence on the first date on which the Moody's Maximum Rating Distribution is 450 or less, *provided* that if the Moody's Maximum Rating Distribution exceeds 500 thereafter, the Reinvestment Period may not resume.

"Relevant Determination" means, with respect to a Credit Default Swap or Hedging Credit Default Swap, a calculation or determination made by the CDS Calculation Agent (or its designee) under

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a Credit Default Swap based upon or derived from information in a Servicer Report or other document (including information provided in public sources that are customarily used by the CDS Calculation Agent) prepared by an Information Provider.

"Relevant Determination Adjustment" means, in respect of any Relevant Determination under a Credit Default Swap or Hedging Credit Default Swap as to which the Information Provider subsequently issues corrections or adjustments, the adjustment or correction to the Relevant Determination made by the CDS Calculation Agent to conform to the corrections or adjustments to such revised information.

"Relevant Determination Principal Adjustment" means a Relevant Determination Adjustment in respect of any Writedown Amount, Writedown Reimbursement Payment Amount, Principal Shortfall Amount or Principal Shortfall Reimbursement Payment Amount.

"Relevant Rate" means, with respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if: (a) the 2000 ISDA Definitions (and not the Credit Derivatives Definitions) applied to this paragraph; (b) the Fixed Rate Payer Calculation Period were a "Calculation Period" (as defined in the 2000 ISDA Definitions) for purposes of such determination; and (c) the following terms applied: (i) the Floating Rate Option (as defined in the 2000 ISDA Definitions) were the Rate Source (as defined in the 2000 ISDA Definitions); (ii) the Designated Maturity (as defined in the 2000 ISDA Definitions) were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and (iii) the Reset Date (as defined in the 2000 ISDA Definitions) were the first day of the Calculation Period; provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.

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

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

"Residential B/C Mortgage Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by subprime residential real estate (single or multi-family properties) the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics: (1) the mortgage loans

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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.

"Return Amount" has the meaning specified in the CSA.

"Scheduled Termination Date" means, for each Credit Default Swap or Hedging Credit Default Swap, the earlier of (i) the Legal Final Maturity Date of the related Reference Obligation, subject to adjustment in accordance with the business day convention set forth in the applicable Underlying Instruments and (ii) the Stated Maturity of the Notes.

"Security Interest Opinion" means an opinion of counsel in form and substance satisfactory to Standard & Poor's which provides that upon the bankruptcy of the Swap Counterparty, the Issuer will have the right to terminate the Master Agreement, net amounts owed under the Master Agreement and liquidate the collateral without obtaining the prior approval of a court overseeing the bankruptcy of the Swap Counterparty.

"Senior Amount" means, with respect to a Reference Obligation and as of any day, the aggregate outstanding principal balance and/or Certificate Balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means, with respect to a Reference Obligation, any trustee, servicer, sub servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means, with respect to a Reference Obligation, periodic statements or reports regarding the Reference Obligation provided by the related Servicer to holders of the Reference Obligation.

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

"Special Purpose 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 that (x) is commonly used as the place of organization of special or limited purpose vehicles that issue Asset-Backed Securities, (y) that generally imposes no or nominal tax on the income of special-purpose vehicles and (z) the designation of which as a Special Purpose Vehicle Jurisdiction satisfies the Rating Condition.

"Specified Types" means (1) Automobile Securities and Subprime Automobile Securities, (2) Residential A Mortgage Securities, Residential B/C Mortgage Securities, CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities and Home Equity Loan Securities (other than Guaranteed Real Property Securities), (3) Credit Card Securities and (4) CDO Securities (including Synthetic ABS CDO Securities and CLO Securities, but excluding Corporate CDO Securities, CDO of CDO Securities, Trust Preferred CDO Securities and CDO Securities managed by the Collateral Manager), *provided* that such security is not a Guaranteed Asset-Backed Security.

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"Standard & Poor's Minimum Recovery Rate Test" means a test which is satisfied if the Standard & Poor's Recovery Rate is equal or greater than (a) with respect to the Class A Notes, 32.5%; (b) with respect to the Class B Notes, 37.6%; (c) with respect to the Class C Notes, 43.6% and (d) with respect to the Class D Notes, 49.6%.

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

"Standard & Poor's Recovery Rate" means the number (expressed as a percentage rounded up to the first decimal place) obtained by (a) summing the products obtained by multiplying the Reference Obligation Notional Amount of each Credit Default Swap other than a Hedged Credit Default Swap by its Applicable Recovery Rate (determined for purposes of this definition pursuant to clause (ii) of the definition of "Applicable Recovery Rate") and (b) dividing such sum by the Reference Pool Notional Amount (other than the Hedged Credit Default Swaps). For purposes of determining the Standard & Poor's Recovery Rate, the Reference Obligation Notional Amount of a Credit Default Swap that references a Defaulted Reference Obligation will be deemed to be equal to its Calculation Amount.

"Standard Terms" means the Pay As You Go Confirmation published by ISDA on June 21, 2005, as amended from time to time by ISDA, and appropriate to the applicable Reference Obligation.

"Structuring Fee" means (a) for each Distribution Date commencing with the Distribution Date in December 2005 through and including the Distribution Date in September 2010, the applicable Structuring Fee Amount or (b) on the Redemption Date for any Optional Redemption resulting from a Downgrade Event prior to the Distribution Date in September 2009, an amount equal to the excess of U.S.$ 15,860,055.80 over the aggregate amount of Structuring Fee Amounts paid on prior Distribution Dates.

"Structuring Fee Amount" means, for each Distribution Date specified in the column to the left in the chart below, the amount set forth in the applicable row of the column to the right:

Distribution Date	Amount (U.S.$)
December 2005	1,672,555.80
March 2006	1,241,015.63
June 2006	1,241,015.63
September 2006	827,343.75
December 2006	827,343.75
March 2007	827,343.75
June 2007	827,343.75
September 2007	827,343.75
December 2007	827,343.75

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March 2008	827,343.75
June 2008	827,343.75
September 2008	827,343.75
December 2008	827,343.75
March 2009	827,343.75
June 2009	827,343.75
September 2009	827,343.75
December 2009	237,500.00
March 2010	237,500.00
June 2010	237,500.00
September 2010	237,500.00

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

"Supersenior CDS Premium" means, on any Distribution Date, an amount equal to (a) the product of 0.22% *per annum* and the excess, if any, of the Supersenior Notional Amount over U.S.$ 97,500,000 *plus* (b) the product of 0.60% *per annum* and (1) if the Supersenior Notional Amount is greater than U.S.$ 97,500,000, U.S.$ 97,500,000 or (2) if the Supersenior Notional Amount is less than or equal to U.S.$ 97,500,000, the Supersenior Notional Amount *minus* (c) the product of 0.60% *per annum* and the lesser of the Supersenior Funded Amount and U.S.$ 97,500,000 *minus* (d) the product of 0.22% *per annum* and the excess, if any, of the Supersenior Funded Amount over U.S.$ 97,500,000, in each case, as of the close of business on the immediately preceding Distribution Date (taking into account any reduction in the Supersenior Notional Amount on such preceding Distribution Date and calculated based on a year consisting of 360 days and the actual number of days elapsed in the related Interest Period), *provided* that for the first Interest Period, the Supersenior CDS Premium shall be an amount equal to U.S.$ 417,929.17.

"Supersenior Funded Amount Interest" means interest at the Supersenior Rate payable in respect of the Supersenior Funded Amount in effect from time to time on each Distribution Date prior to the occurrence of the Funded Amount Trigger Date.

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"Supersenior Notional Amount" means (i) on the Closing Date, the Initial Supersenior Notional Amount, and (ii) on each Distribution Date thereafter the excess (if any) of (i) the Supersenior Notional Amount on the immediately preceding Distribution Date (or on the Closing Date, in the case of the first Distribution Date) over (ii) the Aggregate Reference Portfolio Amortization Amount for the Due Period related to such Distribution Date.

"Supersenior Rate" means a *per annum* rate of LIBOR plus 0.30%.

"Supersenior Swap" means the supersenior swap transaction entered into pursuant to the Master Agreement, including the attached schedule related thereto.

"Supersenior Threshold Amount" means U.S.$150,000,000.

"Swap Counterparty" means Merrill Lynch International.

"Swap Counterparty Additional Fixed Rate" means, on any day, the Fixed Rate applicable to an additional Credit Default Swap, as determined by the Swap Counterparty in its sole discretion.

"Swap Counterparty Hedging Fixed Rate" means, on any day, the Fixed Rate applicable to a Hedging Credit Default Swap, as determined by the Swap Counterparty in its sole discretion.

"Swap Counterparty Tax Event" means that (i) the Swap Counterparty is required to pay any additional amounts (pursuant to Section 2(d)(i)(4) of the Master Agreement) to the Issuer in respect of an Indemnifiable Tax (as defined in the Master Agreement), (ii) the Swap Counterparty receives an amount less than what it would have otherwise received due to an Indemnifiable Tax under the Master Agreement or (iii) the Swap Counterparty is required to pay any excise tax in respect of any transaction under the Master Agreement.

"Swap Counterparty Premium Payment" means for each Distribution Date, the excess, if any, of amounts payable to the Issuer over amounts payable by the Issuer under the Credit Default Swaps and the Hedging Credit Default Swaps on all Fixed Rate Payer Payment Dates occurring during the related Due Period (other than Principal Shortfall Amounts, Writedown Amounts, Writedown Reimbursement Payment Amounts, Principal Shortfall Reimbursement Payment Amounts, Relevant Determination Principal Adjustments and Physical Settlement Amounts).

"Swap Counterparty TRS Payment Date" means (i) each Quarterly Distribution Date, (ii) each TRS Extended Termination Date and (iii) the earliest to occur of (a) the TRS Scheduled Termination Date, (b) the first Quarterly Distribution Date following the date on which the aggregate notional amount of all Credit Default Swaps is reduced to zero and there are no Deliverable Obligations in the DO Collateral Subaccount, (c) a Redemption Date, Mandatory Redemption Date or Accelerated Maturity Date and (d) the date on which all of the transactions related to the Underlying Assets have been terminated in full in accordance with the terms of the Total Return Swap.

"Swaps Liquidation Date" means the date on which the Credit Default Swaps and the Hedging Credit Default Swaps are terminated pursuant to the Liquidation Procedures; *provided* that, in the case of an Optional Redemption, Auction Call Redemption, Tax Redemption or Mandatory Redemption, such date shall be no later than the second Business Day prior to the related Redemption Date or Mandatory Redemption Date; and in the case of an Event of Default, such date shall be no later than the second Business Day prior to the Accelerated Maturity Date.

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"Synthetic ABS CDO Security" means any CDO Security the issuer of which obtains credit exposure to, or depends on the market value of or cashflow from, one or more credit default swaps or total return swaps (i) in an aggregate notional amount greater than 20% of the aggregate principal balance (and notional amount) of the underlying assets of such CDO Security, and (ii) the reference portfolio of which contains the characteristics normally associated with CDO Securities with current market practice including, without limitation, the portfolio characteristics, investment and reinvestment criteria, and credit profile (e.g., probability of default, recovery upon default and expected loss characteristics).

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

"Total Return Swap LIBOR Payment" means, for each Interest Period, the product of (i) the remainder of (A) the daily average of the Notional Amounts of the Underlying Assets for such Interest Period minus (B) an amount equal to (1) the sum of the daily aggregate amount of all reductions in the TRS Outstanding Principal Amount of any Underlying Assets since the Closing Date as a result of the occurrence of an Optional Termination Event with respect to such Underlying Assets, divided by (2) the number of days in the applicable Interest Period, (ii) LIBOR (*provided* that, in the case of the first Interest Period, LIBOR will be 3.89%) and (iii) the actual number of days elapsed during the Interest Period divided by 360. In the event that the TRS Outstanding Principal Amount of any Underlying Asset is reduced as a result of the occurrence of an Optional Termination Event, resulting in a reduction of the Total Return Swap LIBOR Payment, the Total Return Swap LIBOR Payment on the next Distribution Date will be reduced by an amount equal to such reduction plus any interest thereon at LIBOR.

"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 expenses and other amounts payable under the Indenture as of such date (other than a Swap Termination Payment or a Final Total Return Amount payable by the Issuer) and any fees and expenses incurred by the Trustee or the Collateral Manager in connection with the termination of Credit Default Swaps, but excluding payments to the Preference Share Paying Agent for distribution to the Preference Shareholders, (b) to pay the Supersenior Funded Amount, (c) 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 (d) solely in the case of an Auction Call Redemption pursuant to the Indenture, to make a payment to the Preference Share Paying Agent for distribution to the Preference Shareholders in an amount equal to the Preference Share Redemption Date Amount, if any (or such lesser amount as is agreed by Preference Shareholders whose aggregate Voting Percentages at such time equal 100% of all Preference Shareholders' Voting Percentages at such time).

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"TRS Extended Termination Date" means, for each transaction under the Total Return Swap, the Notice Delivery Period Expiration Redemption Date and each Delivery Date thereafter.

"TRS Outstanding Principal Amount" means, as of any date with respect to each Underlying Asset, (a) the original principal amount or Certificate Balance of such Underlying Asset on the date acquired by the Issuer minus (b) the cumulative amount of TRS Principal Payments in cash (as a result of scheduled or accelerated amortizations, acceleration of payment obligations, redemption or otherwise) paid to the Issuer in respect of and pursuant to the terms of such Underlying Asset (whether paid by the related issuer thereof, a trustee or paying agent in respect of such Underlying Asset or any other similar entity or obligor in respect of such Underlying Asset) from and including the Closing Date to and including such date plus (c) any increase in such TRS Outstanding Principal Amount on or prior to such date on any Collateral Shortfall Replacement Date, Ratings Event Replacement Date or Elective Replacement Date minus (d) any reduction in such TRS Outstanding Principal Amount on or prior to such date (i) on each Floating Rate Payer Payment Date or Delivery Date following determination of a Floating Amount or a Physical Settlement Amount payable in respect of the related Floating Amount Event (other than an Interest Shortfall) or Credit Event (in each case, by the amount, if any, designated by the Swap Counterparty with respect to such Underlying Asset) or (ii) on any Distribution Date as a result of a payment of a Principal Amortization Release Amount by the Swap Counterparty pursuant to the Total Return Swap.

"TRS Scheduled Termination Date" means, for each transaction under the Total Return Swap, the Stated Maturity of the Notes.

"TRS Termination Date" means, with respect to each Underlying Asset, the date which is the earliest to occur of: (a) the TRS Scheduled Termination Date; (b) the first Quarterly Distribution Date following the date on which the aggregate notional amount of all Credit Default Swaps is reduced to zero and there are no Deliverable Obligations in the DO Collateral Subaccount, (c) a Redemption Date, Mandatory Redemption Date or Accelerated Maturity Date under the Indenture; (d) any Replacement Date with respect to such Underlying Asset, in whole or in part, in connection with a Replacement (but only, in the case of a partial termination, in respect of the portion of such Underlying Asset being replaced) and (e) the date designated by the Swap Counterparty as the TRS Termination Date in respect of such Underlying Asset or in respect of all Underlying Assets in accordance with "The Total Return Swap–Termination Date Payments and Deliveries"; *provided*, *however*, that if there is an Unsettled Credit Event on the TRS Scheduled Termination Date or the Mandatory Redemption Date, the TRS Termination Date shall be the latest TRS Extended Termination Date to occur thereunder. For the avoidance of doubt, the occurrence of an event described in clause (d) or (e) above in respect of an Underlying Asset will not result in a TRS Termination Date with respect to any other Underlying Asset.

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

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

"Trustee Fee" means the fee payable, in accordance with the Priority of Payments, to LaSalle Bank National Association in its capacities (or any successor to it in such capacities) as (i) Note Registrar

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and Trustee hereunder, (ii) Collateral Administrator under the Collateral Administration Agreement, (iii) Preference Share Paying Agent under the Preference Share Paying Agency Agreement and (iv) Custodian under the Account Control Agreement, in an amount, for (i), (ii), (iii) and (iv) combined, equal to, for each Distribution Date, 0.01% *per annum* of the Average Reference Pool Notional Amount; *provided*, *however*, that from the Initial Redemption Date to the Extended Maturity Date, the Trustee Fee shall be zero.

"TRS Calculation Agent" means MLI; *provided* that if an Event of Default shall have occurred and be continuing with respect to which MLI is the sole Defaulting Party, the Issuer shall appoint an independent third party to be the TRS Calculation Agent. The TRS Calculation Agent shall act in good faith and in a commercially reasonable manner. Upon the request by a party to the Total Return Swap, the TRS Calculation Agent shall promptly provide such party with the basis for any calculation or determination made thereunder.

"TRS Liquidation Amount" means the amount paid to the Issuer under the Total Return Swap in the event of an Optional Redemption, Tax Redemption, Auction Call Redemption or upon the Accelerated Maturity Date, Stated Maturity or Mandatory Redemption Date (which, for the avoidance of doubt, will not include an amount equal to the principal amount or Certificate Balance of Underlying Assets equal to the Holdback Amount with respect to the Stated Maturity or Mandatory Redemption Date).

"TRS Replacement Agreement" means a total return swap, repurchase agreement, guaranteed investment contract or similar instrument which satisfies the Rating Condition with respect to Standard & Poor's.

"Twelve-Month Period" means, on each Reference Obligation Payment Date on or after the 360th day after the applicable Writedown occurred, the immediately preceding 360-day period.

"UA Collateral Subaccount" means a subaccount of the Collateral Account to which the Underlying Assets and UA Eligible Investments are credited.

"UA Eligible Investments" include any Dollar-denominated investment that is one or more of the following (and may include investments for which the Trustee and/or its affiliates provides services or receives compensation):

(a) cash;

(b) direct Registered obligations of, and Registered obligations the timely payment of principal and interest on which is fully and expressly guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States;

(c) demand and time deposits in, certificates of deposit of, bankers' acceptances payable within 183 days of issuance issued by, or Federal funds sold by any depository institution or trust company incorporated under the laws of the United States or any state thereof and subject to supervision and examination by Federal and/or state banking authorities so long as the commercial paper and/or the debt obligations of such depository institution or trust company (or, in the case of the principal depository institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of not less than "AA" by Standard & Poor's and "Aa2" by

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Moody's (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's) or at least "A-1" by Standard & Poor's and "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's); *provided* that, 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);

(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 "AA" by Standard & Poor's and "Aa2" by Moody's (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's) or whose short-term credit rating is at least "A-1" by Standard & Poor's and "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's); *provided* that, 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);

(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 "AA" by Standard & Poor's and "Aa2" by Moody's (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody'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 at least "A-1" by Standard & Poor's and "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's);

(g) Registered Reinvestment Agreements issued or guaranteed by any bank, or a Registered Reinvestment Agreement issued or guaranteed by any insurance company or other corporation or entity organized under the laws of the United States or any state thereof; *provided* that, in any case, the issuer or guarantor thereof must have at the time of such investment a long-term credit rating of not less than "AA" by Standard & Poor's and "Aa2" by Moody's (and, if such rating is "Aa2," such rating is not on watch for possible downgrade by Moody's); and

(h) interests in any money market fund or similar investment vehicle having at the time of investment therein a rating of "AAAm" by Standard & Poor's and the highest credit rating assigned by Moody's; *provided* that such fund or vehicle is formed and has its principal office outside the United States;

provided that, with respect to any security listed above, if the maturity is the lesser of (x) the next Distribution Date or (y) 30 Business Days from the date of issuance, then, except for asset-backed commercial paper in an aggregate principal amount of up to 10% of the Aggregate Outstanding Amount of the Notes, which may have a rating of "A-1" from Standard & Poor's if it has a maturity not greater than one month, such security shall have a rating of at least "A-1+" by Standard & Poor's and, if such security has a long-term rating, such long-term rating must be at least "AA-", and if the maturity is longer than as set forth in (x) or (y) above, such security must have a long term rating of at least "AAA" by

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Standard & Poor's, *provided further* that UA Eligible Investments may not include (a) any mortgaged-backed security, (b) any security that does not provide for payment or repayment of a stated principal amount in one or more installments, (c) any security purchased at a price in excess of 100% of the par value thereof, (d) any investment the income from or proceeds of disposition of which is or will be subject to reduction for or on account of any withholding or similar tax, (e) any security the acquisition (including the manner of acquisition), ownership, enforcement or disposition of which will subject the Issuer to net income tax in any jurisdiction, (f) any floating rate security (other than the time deposits described in paragraph (c) above) whose interest rate is inversely or otherwise not proportionately related to an interest rate index or is calculated as other than the sum of an interest rate index *plus* or *minus* a spread, (g) any security whose rating by Standard & Poor's includes the subscript "r," "t," "p," "pi" or "q" or (h) any security that is subject to an Offer. UA 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.

"UA Principal Payment" means, with respect to any Underlying Asset, the occurrence of a payment of an amount to the holders of such Underlying Asset in respect of principal (scheduled or unscheduled), other than a payment in respect of principal representing capitalized interest.

"Underlying Asset Market Value" means, with respect to an Underlying Asset, the value (expressed as a percentage) of such Underlying Asset (other than any related UA Eligible Investments), which will take into account any credit enhancement, in the Collateral Account, determined by the Swap Counterparty in accordance with its customary methods. The Collateral Manager will, on the first "Valuation Date" (as defined in the CSA) of each month (commencing in October 2005), verify the Underlying Asset Market Value for each Underlying Asset determined by the Swap Counterparty on such "Valuation Date" by obtaining quotations from at least two reference market makers (which will exclude the Swap Counterparty or its affiliates) and inform the Trustee, the Swap Counterparty and the Issuer of the highest quotation obtained (the "Market Maker Quotation"); *provided* that the Market Maker Quotation cannot be based on a quotation from the same reference market maker more than four times in any 12-month period. In the event that such Market Maker Quotation is different from the valuation provided by the Swap Counterparty, the Underlying Asset Market Value will be the lower of such amounts.

"Underlying Assets" means (a) the Initial Underlying Assets and (b) any securities designated by the Swap Counterparty in a notice to the Issuer, the Trustee and the Collateral Manager or (to the extent that the Total Return Swap is not in effect or the Issuer has the right under the Total Return Swap to designate the securities) by the Collateral Manager in a notice to the Trustee, in each case, which on the date of such notice satisfies the Underlying Assets Criteria.

"Underlying Assets Criteria" means a security (i) that is either (a) an Asset-Backed Security of a Specified Type that has a Standard & Poor's Rating of at least "AAA" or of "A-1+" or (b) a UA Eligible Investment that, in either case, satisfies the Underlying Asset Tax Criteria and (ii) that is purchased at a price not in excess of its Certificate Balance or principal amount (exclusive of any discount included therein), unless the Swap Counterparty pays any accrued interest or other amount in excess thereof, if it will be subject to the Total Return Swap; *provided*, *however*, that an Asset-Backed Security may be purchased only if it will be subject to the Total Return Swap, a TRS Replacement Agreement or if the Rating Condition with respect to Standard & Poor's is satisfied.

"Underlying Assets Interest Distributions" means Interest and Fees paid in respect of each Underlying Asset, in each case less any Withheld Taxes that would have been deducted from payments to a holder of each such Underlying Asset having the same tax status as the Issuer.

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"Underlying Assets Tax Criteria" means that the Underlying Asset satisfies clauses (F), (G), (H) and (I) of the Eligibility Criteria (in each of which the terms "Reference Obligation related to the Credit Default Swap" and "Credit Default Swap" will be replaced by "Underlying Asset" and "Swap Counterparty" will be replaced by "issuer of the Underlying Asset").

"Underlying Instruments" means (i) with respect to an Eligible Investment, the indenture or other agreement pursuant to which an Eligible Investment has been issued or created and each other agreement that governs the terms of or secures the obligations represented by such Eligible Investment or of which holders of such Eligible Investment are the beneficiaries and (ii) with respect to a Reference Obligation or an Underlying Asset, the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of such Reference Obligation or Underlying Asset.

"Underlying Valuation Percentage" means the percent in the Indenture corresponding to the type of Underlying Asset.

"Unhedged Credit Default Swap" means a Credit Default Swap other than a Hedged Credit Default Swap.

"Unpaid Amounts" means, with respect to each of the Issuer and the Swap Counterparty, amounts due but not yet paid under the Credit Default Swaps.

"Unreimbursed Deferred Interest Amount" means, with respect to any Reference Obligation and any date of determination, the sum of the Interest Shortfall Amount on each Reference Obligation Payment Date plus interest in respect of such sum for each day prior to such date of determination at a rate equal to the Reference Obligation Coupon in effect on such date, with interest being compounded on each Reference Obligation Payment Date, minus all reimbursements of each such Interest Shortfall Amount and all interest paid thereon pursuant to the Underlying Instruments. For this purpose, any reimbursement of an Interest Shortfall Amount shall be deemed to be applied first to the accrued interest on the sum of the Interest Shortfall Amounts and then to reimburse the most recent Interest Shortfall Amount.

"Unsettled Credit Event" means any Credit Event with respect to a Reference Obligation as to which an Event Determination Date has occurred but as to which no Physical Settlement Amount has been paid; *provided* that on the Determination Date related to a Mandatory Redemption or the Stated Maturity, an Unsettled Credit Event shall be deemed to have occurred with respect to any Reference Obligation with respect to which the Notice Delivery Period has not expired.

"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 (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.

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"Voting Percentage" means in respect of a Preference Shareholder at any time, (a) for any Preference Shareholder which is a Reg Y Institution, the lesser of (i) 4.99% and (ii) a percentage equal to the number of Preference Shares held by such Reg Y Institution at such time multiplied by the Voting Factor at such time divided by the aggregate number of Preference Shares held by all Preference Shareholders at such time and (b) for any Preference Shareholder other than a Reg Y Institution, a percentage equal to the number of Preference Shares held by such Preference Shareholder at such time multiplied by the Voting Factor at such time divided by the aggregate number of Preference Shares held by all Preference Shareholders at such time.

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

"Weighted Average Life" means the number obtained by (i) summing the products obtained by multiplying (a) the Average Life at such time of each Reference Obligation (excluding Hedged Credit Default Swaps, Defaulted Reference Obligations and Written Down Reference Obligations) by (b) its Reference Obligation Notional Amount and (ii) dividing such sum by the Reference Pool Notional Amount at such time of all Reference Obligations that are not Hedged Credit Default Swaps, Defaulted Reference Obligations or Written Down Reference Obligations.

"Weighted Average Life Test" means a test which is satisfied if the Weighted Average Life of all Reference Obligations (other than Reference Obligations with respect to Hedged Credit Default Swaps, Hedging Credit Default Swaps, Defaulted Reference Obligations and Written Down Reference Obligations) is equal to or less than seven years.

"Weighted Average Spread Test" means a test which is satisfied if (i) the product of (a) the excess of the Fixed Rates payable by the Issuer under the Hedging Credit Default Swaps over the Fixed Rates payable to the Issuer under the Hedged Credit Default Swaps and (b) the aggregate Reference Obligation Notional Amount thereof is less than or equal to (ii) the product of (a) the excess, if any, of the weighted average of the Fixed Rates payable by the Swap Counterparty under the Credit Default Swaps over 1.35%, (b) 22.2% and (c) the Reference Pool Notional Amount.

"Withheld Taxes" means, with respect to an Underlying Asset, any amounts the issuer thereof is required to withhold from payment to a holder with the same tax status as the Issuer on account of any taxes.

"Writedown" means, with respect to a Reference Obligation, the occurrence at any time on or after the Effective Date of (i)(A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (howsoever described in the Underlying Instruments) to the Reference Obligation resulting in a reduction of the current interest payable on the Reference Obligation; (ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or (iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the CDS Calculation Agent.

"Writedown Amount" means, with respect to each Credit Default Swap or Hedging Credit Default Swap and any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

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"Writedown Reimbursement" means, with respect to a Reference Obligation and any day, the occurrence of either (i) a payment by or on behalf of the related Reference Entity of an amount in respect of the Reference Obligation in reduction of any prior Writedowns; (ii)(A) an increase by or on behalf of the related Reference Entity of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or (B) a decrease in the principal deficiency balance or realized loss amounts (howsoever described in the Underlying Instruments) attributable to the Reference Obligation; or (iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the CDS Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to each Credit Default Swap or Hedging Credit Default Swap and any day, an amount equal to the product of (i) the sum of all Writedown Reimbursements on that day; (ii) the Applicable Percentage; and (iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to each Credit Default Swap or Hedging Credit Default Swap, an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, *provided* that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer (or, in the case of a Hedging Credit Default Swap, the Swap Counterparty) in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

"Written Down Reference Obligation" means a Reference Obligation that is subject to a Writedown.

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SCHEDULE A

INITIAL UNDERLYING ASSETS

Issuer	Underlying Asset	Initial Issue Amount	Initial Principal Amount of the Underlying Asset	CUSIP	Maturity Date	Ratings	Minimum Denomination
Duke Funding VIII, Ltd. and Duke Funding VIII, Corp.	Class A1S Senior Secured Floating Rate Notes Due 2045	USD812,000,000	USD150,000,000	26440VAA2	April 7, 2045	AAA – S&P AAA – Fitch	USD1,000,000

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SCHEDULE B

CREDIT DEFAULT SWAPS AND REFERENCE OBLIGATIONS

AS OF SEPTEMBER 19, 2005

MLI Reference Number	Effective Date	Reference Obligation	Issuer	Guarantor/ Insurer	CUSIP/ISIN	Legal Final Maturity Date	Reference Obligation Coupon/ Spread	Initial Factor	Original Principal Amount (USD)	Reference Policy	Initial Face Amount (USD)	Fixed Rate (per annum)	PIK Reference Obligation	Specified Type	S&P Rating
05ML30762A	9/22/2005	AABST 2004-6 B3	AABST 2004-6	None	00764MEC7	3/25/2035	2.85%	1.00	10,000,000.00	NA	10,000,000.00	1.75%	No	Resi B&C	BBB
05ML30763A	9/22/2005	ABFC 2004-OPT4 M6	ABFC 2004-OPT4	None	04542BHJ4	11/25/2032	3.50%	1.00	7,872,000.00	NA	11,387,096.77	1.70%	No	Resi B&C	BBB
05ML30653A	7/15/2005	ABFC 2005-HE1 M9	ABFC 2005-HE1	None	04542BLA8	12/25/2034	1.95%	1.00	12,467,000.00	NA	9,677,419.35	1.85%	No	Resi B&C	BBB-
05ML30655A	7/15/2005	ABSHE 2005-HE3 M9	ABSHE 2005-HE3	None	04541GRC8	4/25/2035	1.85%	1.00	7,055,000.00	NA	9,677,419.35	1.80%	No	Resi B&C	BBB-
05ML30838A	9/22/2005	ABSHE 2005-HE6 M-8	ABSHE 2005-HE6	None	04541GTS1	7/25/2035	1.53%	1.00	15,759,000.00	NA	3,000,000.00	1.25%	No	Resi B&C	BBB
05ML37149A	9/22/2005	ACE 2004-FM2 M6	ACE 2004-FM2	None	004421GP2	6/25/2034	3.50%	1.00	10,242,000.00	NA	12,096,774.19	1.75%	No	Resi B&C	BBB
05ML37150A	9/22/2005	ACE 2004-HE2 M6	ACE 2004-HE2	None	004421GY3	10/25/2034	3.40%	1.00	5,400,000.00	NA	12,096,774.19	1.75%	No	Resi B&C	A-
05ML37316A	9/22/2005	ACE 2004-OP1 M6	ACE 2004-OP1	None	004421FB4	4/25/2034	3.50%	1.00	20,117,000.00	NA	7,648,846.32	1.70%	No	HEL	BBB
05ML30659A	7/15/2005	AMSI 2004-R10 M8	AMSI 2004-R10	None	03072SVY8	11/25/2034	2.00%	1.00	15,300,000.00	NA	7,258,064.52	1.30%	No	Resi B&C	BBB
05ML30661A	7/15/2005	AMSI 2004-R11 M7	AMSI 2004-R11	None	03072SWW1	11/25/2034	1.85%	1.00	7,500,000.00	NA	12,096,774.19	1.20%	No	Resi B&C	BBB+
05ML30664A	7/15/2005	AMSI 2004-R12 M6	AMSI 2004-R12	None	03072SXJ9	1/25/2035	1.26%	1.00	12,000,000.00	NA	7,258,064.52	0.70%	No	Resi B&C	A-
05ML30658A	7/15/2005	AMSI 2005-R2 M9	AMSI 2005-R2	None	03072SYZ2	4/25/2035	2.00%	1.00	13,200,000.00	NA	12,096,774.19	1.30%	No	Resi B&C	BBB-
05ML30665A	7/15/2005	BALTA 2004-13 M2	BALTA 2004-13	None	07386HQA2	11/25/2034	1.05%	1.00	13,184,000.00	NA	7,258,064.52	0.65%	No	Resi A	A
05ML30667A	7/15/2005	BSABS 2004-AC4 B	BSABS 2004-AC	None	073879EJ3	8/25/2034	1.90%	0.73	26,215,000.00	NA	7,258,064.52	1.30%	No	Resi A	BBB
05ML30669A	7/15/2005	BSABS 2004-AC5 B3	BSABS 2004-AC5	None	073879GV4	10/25/2034	3.50%	0.74	5,637,000.00	NA	12,096,774.19	1.85%	No	Resi A	BBB
05ML30672A	7/15/2005	BSABS 2004-AC6 M3	BSABS 2004-AC6	None	073879LT3	11/25/2034	1.40%	0.77	8,275,000.00	NA	7,258,064.52	0.70%	No	Resi A	A
05ML37152A	9/22/2005	BSABS 2004-FR2 M7	BSABS 2004-FR2	None	073879FM5	6/25/2034	3.65%	1.00	4,694,000.00	NA	5,693,548.39	1.70%	No	Resi B&C	BBB
05ML30676A	7/15/2005	BSABS 2004-HE11 M3	BSABS 2004-HE11	None	073879PA0	12/25/2034	1.25%	1.00	51,569,000.00	NA	7,258,064.52	0.70%	No	Resi B&C	A-
05ML30677A	7/15/2005	BSABS 2004-HE7 M6	BSABS 2004-HE7	None	073879EZ7	8/25/2034	3.75%	1.00	8,312,000.00	NA	12,096,774.19	1.85%	No	Resi B&C	BBB+
05ML30680A	7/15/2005	BSABS 2005-HE1 M6	BSABS 2005-HE1	None	073879PW2	1/25/2035	2.45%	1.00	17,468,000.00	NA	12,096,774.19	1.80%	No	Resi B&C	BBB-
05ML37155A	9/22/2005	BSABS 2005-HE4 M-5	BSABS 2005-HE4	None	073879TX6	4/25/2035	1.35%	1.00	7,927,000.00	NA	3,000,000.00	1.25%	No	Resi B&C	BBB
05ML30687A	7/15/2005	CMLTI 2004-OPT1 M9	CMLTI 2004-OPT1	None	17307GJR0	10/25/2034	1.80%	1.00	16,390,000.00	NA	4,838,709.68	1.30%	No	Resi B&C	BBB+
05ML37156A	9/22/2005	CMLTI 2005-HE1 M-6	CMLTI 2005-HE1	None	17307GQU5	5/25/2035	1.35%	1.00	9,408,000.00	NA	3,000,000.00	1.25%	No	Resi B&C	BBB
05ML30720A	7/15/2005	CMLTI 2005-WF1 M3	CMLTI 2005-WF1	None	17307GPJ1	2/25/2035	5.85%	1.00	5,190,700.00	NA	7,258,064.52	1.30%	No	Resi A	BBB
05ML30721A	7/15/2005	CWALT 2004-J13 B	CWALT 2004-J1	None	12667FD51	2/25/2035	1.75%	1.00	16,146,000.00	NA	12,096,774.19	2.00%	No	Resi A	BBB
05ML30724A	7/15/2005	CWL 2004-BC5 M6	CWL 2004-BC5	None	126673PT3	10/25/2034	1.10%	1.00	11,416,000.00	NA	7,258,064.52	0.70%	No	Resi B&C	A-
05ML30726A	7/15/2005	DMSI 2004-5 M3	DMSI 2004-5	None	251563GF3	7/25/2034	5.63%	1.00	6,077,000.00	NA	12,096,774.19	2.00%	No	Resi A	BBB+
05ML30728A	7/15/2005	DUNHL 2004-1A C	DUNHL 2004-1	None	26545QAJ8	1/4/2041	3.15%	0.97	21,500,000.00	NA	12,096,774.19	2.65%	Yes	CDO	BBB
05ML30733A	7/15/2005	EMLT 2004-3 M7	EMLT 2004-3	None	29445FCD8	12/25/2034	1.65%	1.00	8,211,000.00	NA	7,258,064.52	0.70%	No	Resi A	BBB+
05ML30746A	7/15/2005	ETRD 2004-1A C	ETRD 2004-1	None	26925JAD7	1/10/2040	2.85%	0.96	13,250,000.00	NA	12,096,774.19	2.65%	Yes	CDO	BBB
05ML30750A	7/15/2005	FFML 2004-FF8 M4	FFML 2004-FF8	None	32027NNT4	10/25/2034	1.07%	1.00	18,016,000.00	NA	7,258,064.52	0.70%	No	Resi B&C	A-

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MLI Reference Number	Effective Date	Reference Obligation	Issuer	Guarantor/ Insurer	CUSIP/ISIN	Legal Final Maturity Date	Reference Obligation Coupon/ Spread	Initial Factor	Original Principal Amount (USD)	Reference Policy	Initial Face Amount (USD)	Fixed Rate (per annum)	PIK Reference Obligation	Specified Type	S&P Rating
05ML30771A	7/15/2005	FFML 2004-FFC B1	FFML 2004-FFC	None	32027NPX3	6/25/2035	1.85%	1.00	7,162,000.00	NA	12,096,774.19	1.20%	No	HEL	BBB+
05ML30770A	7/15/2005	FFML 2004-FFH4 M9	FFML 2004-FFH4	None	32027NPL9	1/25/2035	2.65%	1.00	8,780,000.00	NA	12,096,774.19	1.20%	No	Resi A	BBB-
05ML30773A	7/15/2005	FFML 2005-FF2 B2	FFML 2005-FF2	None	36242DN90	3/25/2035	1.30%	1.00	20,007,000.00	NA	12,096,774.19	1.30%	No	HEL	BBB+
05ML30763A	7/15/2005	FHLT 2004-4 M6	FHLT 2004-4	None	35729PGY0	3/25/2035	1.15%	1.00	19,575,000.00	NA	7,258,064.52	0.70%	No	Resi B&C	A-
05ML30775A	7/15/2005	FMIC 2004-5 M3	FMIC 2004-5	None	31659TCR4	2/25/2035	1.35%	1.00	13,050,000.00	NA	7,258,064.52	0.70%	No	Resi A	A
05ML30776A	7/15/2005	HEAT 2005-1 B2	HEAT 2005-1	None	437084HY5	5/25/2035	2.25%	1.00	10,000,000.00	NA	12,096,774.19	1.85%	No	HEL	BBB
05ML30777A	7/15/2005	HEMT 2004-4 B1	HEMT 2004-4	None	22541SYQ5	12/25/2034	1.80%	1.00	7,050,000.00	NA	7,258,064.52	1.20%	No	HEL	BBB+
05ML30780A	7/15/2005	HEMT 2005-1 M9	HEMT 2005-1	None	225458DA3	6/25/2035	6.28%	1.00	9,450,000.00	NA	12,096,774.19	1.80%	No	HEL	BBB-
05ML30782A	7/15/2005	HILLC 2004-1A A2	HILLC 2004-1A	None	43147XAE1	12/10/2039	0.55%	1.00	21,250,000.00	NA	4,838,709.68	0.45%	Yes	CDO	AAA
05ML30783A	7/15/2005	IXIS 2004-HE4 B3	IXIS 2004-HE4	None	45071KAK0	2/25/2035	3.11%	1.00	4,257,000.00	NA	12,096,774.19	1.80%	No	Resi B&C	BBB-
05ML37160A	9/22/2005	LBMLT 2004-4 M9	LBMLT 2004-4	None	542514JB1	10/25/2034	3.00%	1.00	23,110,000.00	NA	5,693,548.39	1.70%	No	Resi B&C	A-
05ML37161A	9/22/2005	LBMLT 2005-1 M-8	LBMLT 2005-1	None	542514KG8	2/25/2035	1.70%	1.00	35,000,000.00	NA	3,000,000.00	1.25%	No	Resi B&C	BBB
05ML30787A	7/15/2005	MABS 2005-NC1 M9	MABS 2005-NC1	None	57643LGP5	12/25/2034	2.40%	1.00	11,273,000.00	NA	9,677,419.35	1.80%	No	Resi B&C	BBB-
05ML30788A	7/15/2005	MARM 2004-11 B1	MARM 2004-11	None	576433SF4	11/25/2034	1.75%	1.00	7,143,000.00	NA	12,096,774.19	1.20%	No	Resi A	BBB+
05ML30789A	7/15/2005	MARM 2004-9 B2	MARM 2004-9	None	576433RW8	11/25/2034	3.30%	1.00	6,667,783.00	NA	12,096,774.19	2.00%	No	Resi A	BBB-
05ML37164A	9/22/2005	MASL 2005-1 M-5	MASL 2005-1	None	57644DAF0	9/25/2035	1.85%	1.00	4,244,000.00	NA	3,000,000.00	1.25%	No	HEL	BBB
05ML30790A	7/15/2005	MLMI 2004-HE2 B2	MLMI 2004-HE2	None	59020ULD5	8/25/2035	2.90%	1.00	7,665,000.00	NA	10,838,709.68	1.30%	No	Resi B&C	A-
05ML30791A	7/15/2005	MLMI 2004-SL1 B1	MLMI 2004-SL1	None	59020UEN1	4/25/2035	2.15%	1.00	13,839,000.00	NA	7,258,064.52	1.30%	No	HEL	BBB
05ML30792A	7/15/2005	MLMI 2004-SL2 B1	MLMI 2004-SL2	None	59020UKH7	6/25/2035	1.70%	1.00	5,320,000.00	NA	7,258,064.52	1.20%	No	HEL	BBB+
05ML37165A	9/22/2005	MLMI 2005-NC1 B-2	MLMI 2005-NC1	None	59020URT4	10/25/2035	1.30%	1.00	10,108,000.00	NA	3,000,000.00	1.25%	No	Resi B&C	BBB+
05ML37167A	9/22/2005	MLMI 2005-NC1 B-3	MLMI 2005-NC1	None	59020URU1	10/25/2035	2.05%	1.00	9,097,000.00	NA	7,500,000.00	1.70%	No	Resi B&C	BBB+
05ML30793A	7/15/2005	MLMI 2005-SL1 B2	MLMI 2005-SL1	None	59020UTU9	6/25/2035	1.30%	1.00	11,680,000.00	NA	7,258,064.52	1.20%	No	HEL	BBB-
05ML37169A	9/22/2005	MMLT 2004-2 M9	MMLT 2004-2	None	59001FBN0	1/25/2035	3.50%	1.00	15,162,000.00	NA	11,387,096.77	1.70%	No	Resi B&C	BBB
05ML30795A	7/15/2005	MMLT 2005-1 M9	MMLT 2005-1	None	59001FCF6	5/25/2035	2.25%	1.00	8,375,000.00	NA	12,096,774.19	1.80%	No	Resi B&C	BBB+
05ML30796A	7/15/2005	MSAC 2004-HE6 B3	MSAC 2004-HE6	None	61744CFJ0	8/25/2034	3.60%	1.00	14,854,000.00	NA	12,096,774.19	1.80%	No	Resi B&C	BBB-
05ML30797A	7/15/2005	MSAC 2004-HE8 B1	MSAC 2004-HE8	None	61744CHG4	9/25/2034	1.80%	1.00	16,065,000.00	NA	12,096,774.19	1.20%	No	Resi B&C	BBB+
05ML30798A	7/15/2005	MSAC 2004-NC8 M5	MSAC 2004-NC8	None	61744CHT6	9/25/2034	1.10%	1.00	17,977,000.00	NA	10,838,709.68	0.65%	No	Resi B&C	A
05ML37171A	9/22/2005	NAA 2005-S2 B1	NAA 2005-S2	None	65535VLW6	6/25/2035	1.30%	1.00	8,625,000.00	NA	7,233,870.97	1.25%	No	HEL	BBB
05ML30802A	7/15/2005	NCHET 2005-1 M9	NCHET 2005-1	None	64352VKJ9	3/25/2035	2.05%	1.00	35,896,000.00	NA	12,096,774.19	1.80%	No	Resi B&C	BBB-
05ML30803A	7/15/2005	NHEL 2004-4 M5	NHEL 2004-4	None	66987WBX4	3/25/2035	1.15%	1.00	32,500,000.00	NA	7,258,064.52	0.65%	No	Resi B&C	AA-
05ML31491A	7/15/2005	PCHLT 2005-1 M5	PCHLT 2005-1	None	71085PBP7	1/25/2035	1.00%	1.00	17,600,000.00	NA	7,258,064.52	0.70%	No	Resi B&C	A
05ML30804A	7/15/2005	POPLR 2005-1 M2	POPLR 2005-1	None	73316PBT6	5/25/2035	5.51%	1.00	34,380,000.00	NA	7,258,064.52	0.65%	No	Resi B&C	A
05ML37172A	9/22/2005	PPSI 2004-MCW1 M9	PPSI 2004-MCW1	None	70069FCQ8	10/25/2034	3.65%	1.00	14,400,000.00	NA	8,000,000.00	1.75%	No	Resi B&C	BBB
05ML30805A	7/15/2005	PPSI 2005-WCH1 M6	PPSI 2005-WCH1	None	70069FFN2	1/25/2036	0.98%	1.00	23,750,000.00	NA	7,258,064.52	0.70%	No	Resi B&C	A-
05ML37173A	9/22/2005	PPSI 2005-WHQ1 M8	PPSI 2005-WHQ1	None	70069FGH4	3/25/2035	1.35%	1.00	16,000,000.00	NA	7,233,870.97	1.25%	No	Resi B&C	BBB
05ML30807A	7/15/2005	RASC 2005-KS1 M6	RASC 2005-KS1	None	76110WM86	2/25/2035	2.25%	1.00	7,200,000.00	NA	12,096,774.19	1.80%	No	Resi B&C	BBB

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MLI Reference Number	Effective Date	Reference Obligation	Issuer	Guarantor/ Insurer	CUSIP/ISIN	Legal Final Maturity Date	Reference Obligation Coupon/ Spread	Initial Factor	Original Principal Amount (USD)	Reference Policy	Initial Face Amount (USD)	Fixed Rate (per annum)	PIK Reference Obligation	Specified Type	S&P Rating
05ML30809A	7/15/2005	SABR 2004-OP2 B3	SABR 2004-OP2	None	81375WBT2	8/25/2034	3.30%	1.00	4,935,000.00	NA	12,096,774.19	1.80%	No	Resi B&C	BBB
05ML30832A	7/15/2005	SABR 2005-FR1 B3	SABR 2005-FR1	None	81375WDX1	12/25/2034	1.70%	1.00	9,169,000.00	NA	9,677,419.35	1.80%	No	Resi B&C	BBB-
05ML37174A	9/22/2005	SABR 2005-FR2 B-1	SABR 2005-FR2	None	81375WEH5	3/25/2035	1.20%	1.00	16,311,000.00	NA	3,000,000.00	1.15%	No	Resi B&C	BBB+
05ML30833A	7/15/2005	SAIL 2005-1 M9	SAIL 2005-1	None	86358EQR0	2/25/2035	2.30%	1.00	15,772,000.00	NA	12,096,774.19	1.85%	No	Resi A	BBB-
05ML37176A	9/22/2005	SAIL 2005-6 M-7	SAIL 2005-6	None	86358EUG9	7/25/2035	1.35%	1.00	34,036,000.00	NA	3,000,000.00	1.25%	No	Resi B&C	BBB
05ML30834A	7/15/2005	SASC 2004-S3 M7	SASC 2004-S3	None	86359BC41	11/25/2034	2.50%	1.00	13,811,000.00	NA	12,096,774.19	1.75%	No	HEL	BBB
05ML30835A	7/15/2005	SASC 2004-S4 M3	SASC 2004-S4	None	86359BM32	12/25/2034	1.00%	1.00	26,969,000.00	NA	7,258,064.52	0.65%	No	HEL	A
05ML30837A	7/15/2005	SASC 2005-7XS M3	SASC 2005-7XS	None	86359B7N5	4/25/2035	2.00%	1.00	10,331,000.00	NA	9,677,419.35	2.00%	No	Resi A	BBB-
05ML37177A	9/22/2005	SASC 2005-S1 M-7	SASC 2005-S1	None	86359B4J7	3/25/2035	1.30%	1.00	10,352,000.00	NA	3,000,000.00	1.10%	No	HEL	BBB
05ML37178A	9/22/2005	SASC 2005-S1 M-8	SASC 2005-S1	None	86359B4K4	3/25/2035	1.95%	1.00	7,189,000.00	NA	3,000,000.00	1.25%	No	HEL	BBB-
05ML30840A	7/15/2005	SAST 2005-1 B3	SAST 2005-1	None	805564RV5	5/25/2035	2.35%	1.00	10,500,000.00	NA	12,096,774.19	1.80%	No	Resi B&C	BBB-
05ML30846A	7/15/2005	STRVL 2004-1A B1	STRVL 2004-1A	None	863286AC4	11/3/2040	0.90%	1.00	30,000,000.00	NA	2,419,354.84	0.60%	Yes	CDO	AA
05ML30849A	7/15/2005	SURF 2005-BC1 B2	SURF 2005-BC1	None	84751PEW5	12/25/2035	1.30%	1.00	7,846,000.00	NA	12,096,774.19	1.30%	No	Resi B&C	BBB
05ML30847A	7/15/2005	SVHE 2005-1 M9	SVHE 2005-1	None	83611MCV8	4/25/2035	2.10%	1.00	7,780,000.00	NA	9,677,419.35	1.80%	No	Resi B&C	BBB-
05ML30850A	7/15/2005	TMTS 2004-10SL B1	TMTS 2004-10SL	None	881561KQ6	9/25/2034	2.35%	1.00	15,413,000.00	NA	9,677,419.35	1.30%	No	HEL	BBB
05ML30851A	7/15/2005	TMTS 2004-18SL 1B2	TMTS 2004-18SL	None	881561MX9	10/25/2034	2.10%	1.00	8,400,000.00	NA	9,677,419.35	1.30%	No	HEL	BBB
05ML30852A	7/15/2005	TMTS 2004-2SL M2	TMTS 2004-2SL	None	881561DU5	2/25/2034	1.70%	1.00	15,045,000.00	NA	9,677,419.35	0.65%	No	HEL	A
05ML30853A	7/15/2005	TMTS 2004-6SL B1	TMTS 2004-6SL	None	881561HE7	6/25/2034	2.00%	1.00	14,377,000.00	NA	7,258,064.52	1.20%	No	HEL	BBB
05ML30854A	7/15/2005	TMTS 2005-1SL M2	TMTS 2005-1SL	None	881561QK3	2/25/2035	1.05%	1.00	14,893,000.00	NA	7,258,064.52	0.65%	No	HEL	A
05ML30855A	7/15/2005	TMTS 2005-5SL M3	TMTS 2005-5SL	None	881561RR7	5/25/2035	0.97%	1.00	19,500,000.00	NA	7,258,064.52	0.60%	No	HEL	A-

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SCHEDULE C

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 (diversity score less than or equal to 20 or Moody's Asset Correlation Factor 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 (diversity score greater than 20 or Moody's Asset Correlation Factor of 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 Reference Obligation.

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Part II

Standard & Poor's Recovery Rate Matrix

A. If the Reference Obligation is the senior-most tranche of securities issued by the issuer of such Reference Obligation the recovery rate is as follows:*

Standard & Poor's Rating of Reference Obligation	Recovery Rate by Rating of Notes						
	AAA	AA	A	BBB	BB	B	CCC
"AAA"	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
"AA-," "AA" or "AA+"	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
"A-," "A" or "A+"	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
"BBB-," "BBB" or "BBB+"	50.0%	55.0%	65.0%	75.0%	85.0%	85.0%	85.0%

B. If the Reference Obligation is not the senior-most tranche of securities issued by the issuer of such Reference Obligation the recovery rate is as follows:*

Standard & Poor's Rating of Reference Obligation	Recovery Rate by Rating of Notes						
	AAA	AA	A	BBB	BB	B	CCC
"AAA"	65.0%	70.0%	80.0%	85.0%	85.0%	85.0%	80.0%
"AA-," "AA" or "AA+"	55.0%	65.0%	75.0%	80.0%	80.0%	80.0%	80.0%
"A-," "A" or "A+"	40.0%	45.0%	55.0%	65.0%	80.0%	80.0%	80.0%
"BBB-," "BBB" or "BBB+"	30.0%	35.0%	40.0%	45.0%	50.0%	60.0%	70.0%
"BB-," "BB" or "BB+"	10.0%	10.0%	10.0%	25.0%	35.0%	40.0%	50.0%
"B-," "B" or "B+"	2.5%	5.0%	5.0%	10.0%	10.0%	20.0%	25.0%
"CCC+" and below	0.0%	0.0%	0.0%	0.0%	2.5%	5.0%	5.0%

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EXHIBIT A

Form of Purchaser and Transferee Letter
For Regulation S Global Preference Shares

Date

Khaleej II CDO, Ltd.
c/o Maples Finance Limited
P.O. Box 1093 GT, Queensgate House,
Grand Cayman, Cayman Islands
Attention: The Directors

LaSalle Bank National Association,
as Preference Share Paying Agent
135 South LaSalle Street
Suite 1625
Chicago, Illinois 60603
Attention: CDO Trust Services Group—Khaleej II CDO, Ltd

Maples Finance Limited
(as Preference Share Registrar)
P.O. Box 1093 GT
Queensgate House, South Church Street,
George Town
Grand Cayman, Cayman Islands

ACA Management, L.L.C.
140 Broadway, 47th Floor
New York, New York 10005
Attention: General Counsel

Ladies and Gentlemen:

Reference is made to the Offering Circular (the "Offering Circular") relating to (i) the offering by Khaleej II CDO, Ltd. (the "Issuer") and Khaleej II CDO LLC (the "Co-Issuer") of Class A First Priority Senior Secured Floating Rate Notes due 2040, Class B Second Priority Secured Floating Rate Notes due 2040, Class C Third Priority Secured Deferrable Floating Rate Notes due 2040, Class D Fourth Priority Secured Deferrable Floating Rate Notes due 2040 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, the Common Depositary . The Preference Shares that we purchase (the "Purchased Preference Shares") will be represented by an interest in a Regulation S Global Preference Share.

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We acknowledge that this letter must be delivered to the Issuer, the Preference Share Paying Agent and the Collateral Manager as a condition to the transfer of the Purchased Preference Shares.

In consideration of the foregoing, we agree with the Issuer, the Preference Share Paying Agent and the Preference Share Registrar that prior to any sale, assignment, pledge or other transfer of any of the Preference Shares (or any interest therein) to any transferee, we will:

(i) cause the transferee to, if required by the Preference Share Paying Agency Agreement, make the applicable certifications to the Issuer, the Preference Share Paying Agent and the 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); and (B) it is not a benefit plan investor as defined in United States Department of Labor Regulations at 29 C.F.R. §2510.3-101(f) (a "Benefit Plan Investor") or a Controlling Person and will not transfer its interest in the Preference Share to a Benefit Plan Investor or a Controlling Person.

We represent and warrant to the Issuer, the Preference Share Paying Agent, the Collateral Manager and the Preference Share Registrar that:

We are neither a Benefit Plan Investor nor a Controlling Person.

In addition, we represent and warrant to the Issuer, the Preference Share Agent, the Collateral Manager 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 Placement Agent, 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 Placement Agent, the Preference Share Paying Agent, the Collateral Manager and the Preference Share Registrar and each of their respective affiliates from and against any loss, damage or liability to the extent due to or arising out of a breach of any representation, warranty or agreement made by us in this letter.

This letter agreement shall be governed by and construed in accordance with the laws of the State of New York.

Very truly yours,

NAME OF HOLDER

By:_____

Name:
Title:

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A signed copy of this letter agreement must be faxed to LaSalle Bank National Association, facsimile number (312) 904-0524, Attention: CDO Trust Services Group—Khaleej II CDO, Ltd.

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EXHIBIT B

INITIAL FORM OF CREDIT DEFAULT SWAP CONFIRMATION

MERRILL LYNCH INTERNATIONAL
MERRILL LYNCH FINANCIAL CENTRE
2 KING EDWARD STREET
LONDON EC1A 1HQ
(REGISTERED NO. 2312079)

September 22, 2005

Re: Structured Products Credit Default Swap

Dear Sir or Madam:

The purpose of this master confirmation agreement (the "**Master Confirmation**") is to set forth the terms, conditions and definitions relating to each Credit Derivative Transaction (each, a "**Transaction**") entered into between Merrill Lynch International ("**MLI**" or the "**Buyer**") and Khaleej II CDO, Ltd. (the "**Counterparty**" or the "**Seller**") on the date hereof as evidenced by a letter of execution (each, a "**Letter of Execution**," and each such Letter of Execution, together with this Master Confirmation, a "**Confirmation**" for purposes of the Master Agreement) in the form attached as an exhibit hereto. For U.S. federal income tax purposes, the Seller and the Buyer agree and acknowledge that each Transaction evidences a separate credit default swap transaction with respect to each Reference Obligation and each party covenants to treat each such separate credit default swap transaction as a series of annually settled contingent put options issued by the Seller to the Buyer.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the "**Credit Derivatives Definitions**"), as published by the International Swaps and Derivatives Association, Inc., are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions and this Master Confirmation, this Master Confirmation shall govern. In addition, terms not otherwise defined in the Credit Derivatives Definitions or in this Master Confirmation shall have the meanings given to such terms in the Indenture. In the event of any inconsistency among the provisions of the Credit Derivatives Definitions, the Indenture and any Confirmation, the provisions in the Confirmation shall prevail with respect to the Credit Derivatives Definitions and the Indenture. Further, in the event of any inconsistency between the provisions of the Credit Derivatives Definitions and the Indenture, the Credit Derivatives Definitions shall prevail with respect to the Indenture.

This Master Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of September 22, 2005, as amended and supplemented from time to time (the "**Agreement**"), between you and us. All provisions contained in the Agreement govern this Master Confirmation except as expressly modified below.

References in this Master Confirmation to the "Reference Obligation" shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

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The terms of each Transaction to which this Master Confirmation relates are as follows:

II. General Terms:

Trade Date:	September 22, 2005.
Effective Date:	For each Transaction, the Effective Date as set forth in the Letter of Execution. If the Effective Date is prior to the Closing Date, then the Effective Date shall be such date solely for purposes of Fixed Amounts payable by Buyer and otherwise the Effective Date shall be the Closing Date.
Scheduled Termination Date:	For each Transaction, the earlier of (i) the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the business day convention set forth in the applicable Underlying Instruments or (ii) the Stated Maturity of the Notes.
Termination Date:	With respect to each Transaction, the last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.
Floating Rate Payer:	Seller.
Fixed Rate Payer:	Buyer.
Calculation Agent:	Buyer, except if an Event or Default or Termination Event with respect to Buyer has occurred and is continuing, in which case Seller shall be entitled to appoint a financial institution which would qualify as a Reference Market-maker to act as Calculation Agent until the earlier of (i) an Early Termination Date or (ii) the discontinuance of such Event of Default or Termination Event with respect to Buyer. Any fees, costs and expenses of such appointed financial institution shall be borne by Buyer exclusively.
Calculation Agent City:	New York and London.
Business Day:	New York, London and the city in which the Corporate Trust Office of the Trustee is located;

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	provided that (i) Seller shall notify Buyer if any day will not be a Business Day in the city in which the Corporate Trust Office is located (if it would otherwise be a Business Day) and (ii) if the Trustee changes the location of the Corporate Trust Office, Seller shall notify Buyer in writing in order for such change to be effective hereunder.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in this Master Confirmation that falls on a day that is not a Business Day).
Reference Entity:	For each Transaction, the "Reference Entity" set forth with respect to such Transaction in the applicable Letter of Execution.
Reference Obligation:	For each Transaction, the "Reference Obligation" set forth with respect to such Transaction in the applicable Letter of Execution. Section 2.30 of the Credit Derivatives Definitions shall not apply.
Original Principal Amount:	For each Transaction, the original principal balance of the Reference Obligation on the date of issuance thereof, which shall be set forth as the "Original Principal Amount" in the applicable Letter of Execution.
Initial Factor:	A ratio, expressed as a percentage, equal to the Outstanding Principal Amount as of the Effective Date divided by the Original Principal Amount, which percentage shall be set forth as the "Initial Factor" in the applicable Letter of Execution.
Reference Policy:	For each Transaction, the "Reference Policy," if any, set forth with respect to such Transaction in the applicable Letter of Execution.
Reference Price:	100%
Applicable Percentage:	For each Transaction, on any day, a percentage equal to A divided by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal

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balance of Deliverable Obligations Delivered to Seller divided by the Current Factor on such day multiplied by (b) the Initial Factor.

"B" means the product of the Original Principal Amount and the Initial Factor;

(a) as increased by the outstanding principal balance or Certificate Balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and

(b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.

Initial Face Amount: For each Transaction, the "Initial Face Amount" set forth with respect to such Transaction in the applicable Letter of Execution.

Reference Obligation Notional Amount: On the Effective Date, the product of:

(a) the Original Principal Amount;

(b) the Initial Factor; and

(c) the Applicable Percentage.

Following the Effective Date, the Reference Obligation Notional Amount will be:

(i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount;

(ii) decreased on each day on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount (*provided*, that for purposes of calculating any Fixed Amount only, the Reference Obligation Notional Amount shall not be decreased by any Writedown Amount that occurs as a result of a Writedown set forth in paragraph (iii) of

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the definition of "Writedown");

(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement", *provided*, that for purposes of calculating any Fixed Amount only, the Reference Obligation Notional Amount shall not be increased by any Writedown Reimbursement Amount that occurs as a result of a Writedown Reimbursement set forth in paragraph (iii) of the definition of "Writedown Reimbursement"; and

(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the relevant amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below;

provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

For avoidance of doubt, if the principal balance or Certificate Balance of the Reference Obligation is increased as a result of deferred, capitalized or "pay-in-kind" interest after the Effective Date, such increase shall not be taken into account for purposes of the Reference Obligation Notional Amount.

Initial Payment: Not applicable.

III. Fixed Payments:

Fixed Rate Payer: Buyer

Fixed Rate: For each Transaction, the "Fixed Rate" set forth with respect to such Transaction in the applicable Letter of Execution.

Fixed Rate Payer Period End Date: The first day of each Reference Obligation Calculation Period.

Fixed Rate Payer Payment Dates: Each day falling five Business Days after a Reference Obligation Payment Date; *provided* that the final Fixed Rate Payer Payment Date shall fall on fifth Business

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	Day following the Effective Maturity Date.
Fixed Amount:	With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of: (a) the Fixed Rate; (b) an amount determined by the Calculation Agent equal to: (i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by (ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.
Additional Fixed Amount Payment Dates:	(a) Each Fixed Rate Payer Payment Date; and (b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.
Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; *provided* that any such notice must be given on or prior to the fifth Business Day following the day that is 720 days after the Effective Maturity Date.

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Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is 720 days after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of: (a) the Writedown Reimbursement Payment Amount (if any); (b) the Principal Shortfall Reimbursement Payment Amount (if any); and (c) the Interest Shortfall Reimbursement Payment Amount (if any).

IV. Floating Payments:

Floating Rate Payer:	Seller
Floating Rate Payer Payment Dates:	In relation to a Floating Amount Event, in the case of an Interest Shortfall, the first Fixed Rate Payer Payment Date, and otherwise, the first Distribution Date, falling, in either case, at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due, which notice shall satisfy the requirements of a Notice of Publicly Available Information, and show in reasonable detail how such Floating Amount was calculated; *provided* that in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, such notice must be given on or prior to the fifth Business Day following the Legal Final Maturity Date or the Final Amortization Date, as applicable.
Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Floating Amount Event:	A Writedown, Failure to Pay Principal or an Interest Shortfall.

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Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and (c) the relevant Interest Shortfall Payment Amount (if any).
Retention of Writedown Amounts:	In the event that at any time the short-term unsecured debt rating of the Credit Support Provider for the Buyer is less than "A-1+" by Standard & Poor's (the "**Minimum Swap Counterparty Rating**"), all Writedown Amounts and Interest Shortfall Payment Amounts payable by (or previously paid by) the Seller to the Buyer (from and including the Effective Date to but excluding the date of calculation and excluding (i) any Writedown Amounts or Interest Shortfall Payment Amount relating to each Transaction that is the subject of a Credit Event Notice (other than a Writedown) or a Notice of Physical Settlement, and (ii) any Writedown Amount or Interest Shortfall Payment Amount for which an Additional Fixed Payment has been paid) shall be deposited by the Trustee, in the case of a Writedown Amount, into the Writedown Subaccount and, in the case of an Interest Shortfall Payment Amount, into the Interest Shortfall Subaccount, of the Counterparty Collateral Account and shall be (i) disbursed by the Trustee (a) from the Writedown Subaccount to pay to the Seller on behalf of the Buyer any Writedown Reimbursement Payment Amount and (b) from the Interest Shortfall Subaccount to pay to the Seller on behalf of the Buyer any Interest Shortfall Reimbursement Payment Amount, in each case, under such Transaction, or (ii) disbursed by the Trustee from the Writedown Subaccount and the Interest Shortfall Subaccount to the Buyer on the earliest of (w) the Termination Date, (x) the Early Termination Date (where the Seller is a Defaulting Party or an Affected Party or where the Buyer is an Affected Party due to an Illegality or Tax Event), (y) the date on which the Buyer's Credit Support Provider satisfies the Minimum Swap Counterparty Rating or takes such other action as satisfies the Rating Condition with respect to Standard & Poor's or (z) the date on which a Credit Event Notice is given with respect to a Credit Event (other than a Writedown) or a Notice of Physical Settlement is given with respect to a Writedown Credit Event, in each case with respect to

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such Transaction. Any amounts in the Counterparty Collateral Account shall be invested by the Trustee at the direction of the Buyer. From and after the Effective Date of a Hedging Credit Default Swap with respect to the Reference Obligation, the Trustee shall not be required to deposit any Writedown Amounts hereunder into the Writedown Subaccount, and the Buyer shall not be required to deposit any Interest Shortfall Payment Amounts hereunder into the Interest Shortfall Subaccount, in each case, with respect to the Hedged Notional Amount of such Reference Obligation.

In the event that an Early Termination Date occurs for which the Buyer is the sole Defaulting Party or sole Affected Party under the Agreement (other than in the case of an "Illegality" or "Tax Event"), amounts in the Writedown Subaccount shall be retained by the Trustee until the earlier of (i) for each Writedown Amount so retained (other than with respect to a Reference Obligation which is a CDO Security), 720 days from the date on which the applicable Writedown occurred (as certified by the Calculation Agent to the parties) and, in the case of any Reference Obligation which is a CDO Security, if the aggregate Writedown Amount for such Reference Obligation is less than 25% of the Reference Obligation Notional Amount as of the Early Termination Date, 3 years from the date on which the applicable Writedown occurred (as certified by the CDS Calculation Agent to the parties) (the "**Final Writedown End Date**") or (ii) the date on which the unpaid outstanding principal amount of each Class of Notes has been paid in full. With respect to a Reference Obligation which is a CDO Security, if the aggregate Writedown Amount for such Reference Obligation at the end of any Twelve-Month Period during such 3-year period, is equal to or greater than 25% of the Reference Obligation Notional Amount as of the Early Termination Date, such amounts shall be released to Buyer from the Writedown Subaccount. Amounts in such Writedown Subaccount shall be disbursed by the Trustee (i) to pay to the Seller on behalf of the Buyer any Writedown Reimbursement Payment Amount that becomes payable under each Transaction, (ii) to pay to the Buyer, in the event that the amount in the Writedown Subaccount is greater than the outstanding principal amount of the Notes, the amount of the excess, and (iii) to pay to the Buyer on the applicable Final Writedown End Date any remaining amount in the Writedown Subaccount with respect to the applicable Writedown Amount. In the event that an Early Termination Date occurs for which the Buyer is the sole

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Defaulting Party or sole Affected Party under the Agreement (other than in the case of an "Illegality" or "Tax Event"), amounts in the Interest Shortfall Subaccount shall be retained by the Trustee until the earlier of (i) for each Interest Shortfall Payment Amount so retained, 720 days from the date on which the applicable Interest Shortfall occurred (as certified by the Calculation Agent to the parties) (the "**Final Interest Shortfall End Date**") or (ii) the date on which the unpaid outstanding principal amount of each Class of Notes has been paid in full. Amounts in such Interest Shortfall Subaccount shall be disbursed by the Trustee (i) to pay to the Seller on behalf of the Buyer, any Interest Shortfall Reimbursement Payment Amount that becomes payable under each Transaction and (ii) to pay to the Buyer on the applicable Final Interest Shortfall End Date any remaining amount in the Interest Shortfall Subaccount. For the avoidance of doubt, the obligations of the Buyer, the Seller and the Trustee in this paragraph shall continue and remain in effect notwithstanding the occurrence of such an Early Termination Date.

For the avoidance of doubt, if an Early Termination Date occurs, calculations of the Writedown Amount and the Interest Shortfall Amount shall be made as if the Early Termination Date had not occurred, using the Reference Obligation Notional Amount as of the Early Termination Date (with such reductions or increases therein as would have occurred pursuant hereto if the Early Termination Date had not occurred).

Conditions to Settlement: Credit Event Notice

Notifying Party: Buyer

Notice of Physical Settlement

Notice of Publicly Available Information: Applicable

Public Sources:

The Public Sources listed in Section 3.7 of the Credit Derivatives Definitions; *provided, however,* that Derivatives Week, Asset-Backed Alert, Asset Securitization Report, Creditflux, BondWeek, Bloomberg and Intex shall be deemed Public Sources. Notwithstanding the foregoing, Intex shall not be considered a Public Source unless the Buyer reasonably believes that Intex obtained its information with respect to a Reference Obligation from the most recent trustee

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or servicer report for such Reference Obligation delivered pursuant to the Underlying Instruments with respect to the related Reference Obligation.

Notwithstanding the foregoing, the Notice of Publicly Available Information shall be deemed to have been delivered by the Buyer with respect to a Writedown Credit Event if the Buyer delivers an officer's certificate executed by a managing director of the Buyer (or other substantively equivalent title) to the Seller describing the calculation of the Writedown Amount, stating the source of the information used in such calculation and providing a copy of such information (which shall be a Servicer Report or Publicly Available Information).

Specified Number: One

provided that if the Calculation Agent has previously delivered to the parties a Notice of Publicly Available Information showing in reasonable detail how such Floating Amount was calculated or Buyer has previously delivered a Notice of Publicly Available Information showing in reasonable detail how such Floating Amount was calculated to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Condition to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement.

The parties agree that with respect to each Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:

(a) one or more Credit Event Notices with respect to a Maturity Extension Credit Event may be delivered on or after the legal final maturity date specified in paragraph 1 above;

(b) the Conditions to Settlement may be satisfied on more than one occasion;

(c) multiple Physical Settlement Amounts may be payable by Seller;

(d) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and the Exercise Percentage;

(e) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount

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that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under each Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and

(f) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the Effective Maturity Date.

Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".

Credit Events: The following Credit Events shall apply to each Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definition shall be amended accordingly):

Failure to Pay Principal

Writedown, *provided* that an event specified in clause (ii) of the definition of "Writedown" may not constitute a Credit Event with respect to a Transaction if the Buyer and/or its affiliates own 100% of the outstanding principal amount or Certificate Balance of the related Reference Obligation.

Distressed Ratings Downgrade

Maturity Extension

PIK Reference Obligation Event

Obligation: Reference Obligation Only

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V. Interest Shortfall

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; *provided* that, if Interest Shortfall Cap is applicable and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
Interest Shortfall Cap:	Applicable.
Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
Actual Interest Amount:	With respect to each Transaction and any Reference Obligation Payment Date, payment by or on behalf of the issuer of an amount in respect of interest due under the Reference Obligation, including, without limitation, any deferred interest or defaulted interest, but excluding payments in respect of prepayment penalties or principal (except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) paid to the holder(s) of the Reference Obligation in respect of the Reference Obligation.
Expected Interest Amount:	With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to (a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (howsoever described in the Underlying Instruments) that are attributable to the Reference Obligation minus (b) the Aggregate Implied Writedown Amount (if any) that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to the effect of any limited recourse provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds pursuant to an available funds cap or otherwise, that provide for the capitalization or deferral of interest on the Reference Obligation, or that provide for the extinguishing or reduction of such payments or distributions (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the terms of the

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Underlying Instruments).

Interest Shortfall: With respect to any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

(x) the number of days in the first Fixed Rate Payer Calculation Period; over

(y) the number of days in the first Reference Obligation Calculation Period.

Interest Shortfall Reimbursement: With respect to any Reference Obligation Payment Date, the payment by or on behalf of the issuer of an Actual Interest Amount in respect of the Reference Obligation (including, for the avoidance of doubt, any payment of principal representing capitalized interest) that is greater than the Expected Interest Amount.

Interest Shortfall Reimbursement Amount: With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.

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Interest Shortfall Reimbursement Payment Amount:	The amount determined pursuant to the Interest Shortfall Cap Annex.

VI. Consequences of Step-up of the Reference Obligation Coupon

Step-up provisions:	Not Applicable

VII. Settlement Terms

Terms Relating to Physical Settlement:

Settlement Method:	Physical Settlement
Physical Settlement Period:	Five Business Days
Deliverable Obligations:	Exclude Accrued Interest
Deliverable Obligations:	Deliverable Obligation Category: Reference Obligation Only
Physical Settlement Amount:	An amount equal to:

(a) the product of the Exercise Amount and the Reference Price; minus

(b) the sum of:

(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" minus the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the Exercise Percentage;

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provided that if the Physical Settlement Amount would exceed the product of:

(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and

(2) the Exercise Percentage;

then the Physical Settlement Amount shall be deemed to be equal to such product.

Escrow: Applicable

Non-delivery by Buyer: If Buyer has delivered a Notice of Physical Settlement and does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date, then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in this Master Confirmation to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

VIII. Additional Provisions:

(i) *Delivery of Servicer Report*

If either party makes a reasonable request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). The Calculation Agent agrees to use reasonable efforts to obtain any such requested Servicer Report. In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the "Notifying Party") shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(ii) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related

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Additional Fixed Amount; *provided* that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i), (ii) and (iii) above, notify the parties or the other party, as applicable, of such determinations and calculations. Notwithstanding anything to the contrary contained herein, the Calculation Agent may use data obtained from Intex for the purposes of performing its duties hereunder, but may not rely upon any calculations made by Intex.

(iii) *Adjustment of Calculation Agent Determinations*

In the event that any calculations or determinations hereunder (each, a "**Relevant Determination**") made by the Calculation Agent (or its designee) are based upon or derived from information in a Servicer Report or other document (including information provided in public sources that are customarily used by the Calculation Agent) prepared by a servicer, trustee, paying agent or other information provider provided for in the applicable Underlying Instruments (the "**Information Provider**"), and the Information Provider subsequently issues corrections or adjustments to such information, the Calculation Agent shall, to the extent such corrections or adjustments have an impact on any Relevant Determinations, correct or adjust such Relevant Determinations to conform to the corrections or adjustments to such revised information. The corrections or adjustments to the Relevant Determinations shall be corrected or adjusted retroactively to the date the original payment was made (the "**Original Payment Date**") by the Calculation Agent to reflect the corrected information, and the Calculation Agent shall promptly notify both parties of any corrected payments (each, a "**Relevant Determination Adjustment**") required to be made (with interest) by either party. For the avoidance of doubt, no amounts shall be payable by either party pursuant to Section 2(e) of the Agreement. Interest shall accrue on any adjusted amount at the Adjusted Amount Interest Rate from (and including) the Original Payment Date to (but excluding) the date such adjusted amount is paid, calculated on a non-compounded basis and based upon a 360-day year and the actual number of days elapsed). Such corrected payments shall be made within five Business Days of such notification or, with respect to any such amount payable to the Buyer, on the first Distribution Date following such notification (each, a "**Relevant Determination Adjustment Payment Date**"). "**Adjusted Amount Interest Rate**" shall mean USD-LIBOR-BBA with a Designated Maturity of 3 months as of the Original Payment Date.

In the event that the Calculation Agent has not yet received a Servicer Report from an Information Provider three Business Days prior to any Fixed Rate Payer Payment Date or Additional Fixed Rate Payer Payment Date hereunder, the Calculation Agent may make reasonable assumptions to calculate any Fixed Amount or Additional Fixed Amount. In the event that such assumption proves to have been incorrect when the next Servicer Report from the Information Provider is received by the Calculation Agent, the Calculation Agent shall correct or adjust the Relevant Determinations (in the event such assumptions had an impact on any Relevant Determinations) to conform to the corrections or adjustments to the revised information. The corrections or adjustments to the Relevant Determinations shall be corrected or adjusted retroactively hereunder to the Original Payment Date by the Calculation Agent to reflect the corrected information and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. For the avoidance of doubt, no amounts shall be payable by either party pursuant to Section 2(e) of the Agreement. Interest shall accrue on any adjusted amount at the Adjusted Amount Interest Rate from (and including) the Original Payment Date to (but excluding) the date such amount is paid, calculated on a non-compounded basis and based upon a 360-day year and the actual number of days elapsed. The Calculation Agent shall promptly notify both parties of any corrected payments

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required by either party. Such corrected payments shall be made within five Business Days of such notification.

Any amount payable by the Seller in respect of corrections and adjustments (and interest thereon) shall be payable only from Interest Proceeds held in the Interest Collection Account (or, in the case of a Relevant Determination Principal Adjustment, only from funds in the Collateral Account not payable under the Total Return Swap) and, to the extent that Interest Proceeds (or, in the case of a Relevant Determination Principal Adjustment, funds in the Collateral Account) are insufficient to make such payment, the deficiency shall be deferred and paid on the first day when Interest Proceeds are available in the Interest Collection Account (or, in the case of a Relevant Determination Principal Adjustment, funds in the Collateral Account).

All calculations and determinations made by the Calculation Agent hereunder shall be made in good faith and in a commercially reasonable manner. The Calculation Agent shall have no liability to the parties hereto for errors in such calculations and determinations.

(iv) *No Exposure Required*

The Seller acknowledges and agrees that (i) the Buyer is not required to own any Reference Obligation, (ii) the obligation of the Seller to pay any Physical Settlement Amount or other amount hereunder is not contingent on whether or not the Buyer has suffered a loss or is exposed to the risk of loss on any Reference Obligation upon the occurrence of a Credit Event or the risk of loss with respect to the Reference Entity or the Reference Obligation generally, (iii) the Seller shall have no rights of subrogation under each Transaction with respect to any payment made by it hereunder, (iv) in the event that the Buyer owns any Reference Obligation at any time, it may in its sole discretion determine whether to retain, sell or otherwise dispose of such Reference Obligation, and (v) each Transaction documented under this Master Confirmation is not intended to be and does not constitute a contract of surety, insurance, guarantee, assurance or indemnity and that the obligations of the Buyer and the Seller in respect thereof are not conditional or dependent upon or subject to the Buyer having any title, ownership or interest (whether legal, equitable or economic) in any Reference Obligation or the Buyer having suffered any loss in respect of any Reference Obligation.

(v) *Early Termination Due to an Auction Call Redemption*

Notwithstanding Section 6(e) of the Agreement to the contrary, prior to each proposed Redemption Date for an Auction Call Redemption, all amounts that would be payable with respect to the Transactions made under this Master Confirmation and under the Master Hedging Confirmation on any Early Termination Date under Section 6(e) of the Agreement shall be determined as follows:

(i) The Trustee shall, on or prior to 5:00 p.m., New York time, on the 23rd Business Day prior to the related Swaps Liquidation Date provide a written notice to the Buyer (the "**Swap Termination Payment Notice**") requesting that the Buyer specify the Swap Termination Payment which the Buyer would pay to the Seller or the Swap Termination Payment that the Seller would be required to pay to the Buyer (calculated as if the Seller were the Defaulting Party or Affected Party) if all obligations of the parties with respect to the Transactions under this Master Confirmation were to terminate on the related Swaps Liquidation Date (which payment shall exclude Unpaid Amounts). The Buyer's calculation of the Swap Termination Payment shall (x) take into account the possibility (i) that there are Unsettled Credit Events for which the Physical Settlement Date will not occur on or prior to the Swaps Liquidation Date and (ii) that a Credit Event may occur on or prior to the Swaps Liquidation Date and (y) specify all amounts (including Unpaid Amounts) that will be due and payable by Buyer or Seller on or prior to the Swaps Liquidation Date (the "**Designated Unpaid Amounts**"));

(ii) The Buyer shall, on or prior to 12:00 p.m., New York time, on the fifteenth Business Day prior to such Swaps Liquidation Date, provide (i) written notice specifying the Swap Termination Payment and

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the Designated Unpaid Amounts payable by the Seller to the Buyer or by the Buyer to the Seller or (ii) at the request of the Seller, two separate written notices of the Swap Termination Payment for (a) the Hedged Credit Default Swaps (and the Hedging Credit Default Swaps) and (b) the unhedged Credit Default Swaps (each such notice a "**Swap Termination Notice**"). In the event that the Buyer provides the Seller with two Swap Termination Notices in accordance with clause (ii) of such definition, the Seller may elect to follow the procedure described in clause (v) below for the unhedged Credit Default Swaps but to accept (subject to the condition in clause (vii)) the related Swap Termination Payment specified in the Swap Termination Notice for the Hedged Credit Default Swaps (and the Hedging Credit Default Swaps) and to take that payment into account in all calculations below;

(iii) The Trustee, at the written direction of the Collateral Manager, shall provide written notice to the Buyer on or prior to 5:00 p.m., New York time, on the fifteenth Business Day prior to such Swaps Liquidation Date specifying that it accepts a Swap Termination Payment Notice (the "**Swap Termination Payment Acceptance**") or that it does not accept a Swap Termination Payment Notice (the "**Swap Termination Payment Rejection**"), and failure to respond unconditionally by such deadline shall be deemed to be a Swap Termination Payment Rejection; *provided* that the Seller shall accept a Swap Termination Payment Notice if the Collateral Manager notifies the Seller in writing that the Collateral Manager has determined that the Valuation Minimum Amount would be satisfied;

(iv) If a Swap Termination Payment Acceptance occurs, (x) the Seller shall enter into a binding agreement (on or prior to the sixth Business Day before the Redemption Date) with the Buyer providing for termination of the Seller's obligations under the Master Agreement and the related payments and (y) the Buyer shall pay such Swap Termination Payment and the Designated Unpaid Amounts to the Seller or the Seller shall pay the Swap Termination Payment and the Designated Unpaid Amounts to the Buyer on the Swaps Liquidation Date and, upon such payment all obligations of the parties with respect to the Transactions under this Master Confirmation shall terminate on and as of such Swaps Liquidation Date; *provided*, *however*, that from the date of delivery of the Swap Termination Notice to the Swaps Liquidation Date neither Buyer nor Seller shall pay any amounts other than Designated Unpaid Amounts in respect of the Transactions made under this Master Confirmation;

(v) If a Swap Termination Payment Rejection occurs, the Buyer shall attempt to obtain firm bids (by 12:00 p.m., New York time, on the fifth Business Day prior to such Swaps Liquidation Date), with respect to the Reference Portfolio in whole or (in the sole discretion of the Buyer) with respect to sub-pools of Reference Portfolio (which, in the aggregate, comprise the Reference Portfolio), from at least five Eligible Dealers to replace the Seller with respect to the Transactions under this Master Confirmation (under a confirmation governed by the Standard Terms). The Buyer shall deliver as soon as commercially practicable thereafter a statement of the Designated Unpaid Amounts and each of the firm bids obtained from the Eligible Dealers to the Seller (assuming, for this purpose, that such firm bids take into account (x) any Credit Events for which an Event Determination Date has occurred but for which the Physical Settlement Date is not scheduled to occur on or prior to the Swaps Liquidation Date, and (y) the possibility that a Credit Event may occur on or prior to the Swaps Liquidation Date;

(vi) If the Collateral Manager notifies the Trustee that the highest amount which the Eligible Dealers would pay to replace the Seller hereunder (considering the bids on the Reference Portfolio in whole and for subpools of the Reference Portfolio) or, if no Eligible Dealer agrees to pay any such amount to replace the Seller hereunder for the Reference Portfolio in whole or for a particular subpool, the lowest amount which any such Eligible Dealer would require to be paid to replace the Seller hereunder (considering the bids on the Reference Portfolio in whole and for subpools of the Reference Portfolio), would result in an amount which, together with other Available Redemption Funds (after taking into account any payment by the Seller to such Eligible Dealers and the Designated Unpaid Amounts), would be at least equal to the Total Senior Redemption Amount, the Seller (x) shall deliver a notice of acceptance (the "**Termination Acceptance Notice**") to the Buyer by 5:00 p.m., New York time on the fourth Business Day prior to the Swaps Liquidation Date, (y) shall enter into a binding agreement (on or prior to the sixth Business Day

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before the Redemption Date) with the Buyer providing for termination of the Sellers obligations hereunder and the related payments and (z) shall make any termination payment to the related Eligible Dealer and take all other actions necessary on or prior to the Swaps Liquidation Date in order to effect such transfer and assignment of the Transactions under this Master Confirmation to such Eligible Dealers and, upon such payment, if any, all obligations of the Seller under such Transactions governed under this Master Confirmation shall terminate on and as of such Swaps Liquidation Date (except that Seller and Buyer each shall pay any Designated Unpaid Amounts on the Swaps Liquidation Date); *provided, however*, that from the date of delivery of the Swap Termination Notice to the Swaps Liquidation Date neither Buyer nor Seller shall pay any amounts other than Designated Unpaid Amounts in respect of the Transactions made under this Master Confirmation; and

(vii) In no event shall the Transactions be terminated or any Swap Termination Payment be due from the Seller if the notice of redemption has been withdrawn pursuant to Section 9.2 and 9.7 of the Indenture. If the amount that the Seller would be paid by Eligible Dealers would not result in Available Redemption Funds (after taking into account any payment by the Seller to such Eligible Dealers and the Designated Unpaid Amounts) on the proposed Redemption Date at least equal to the Total Senior Redemption Amount, the valuation procedure described above shall be conducted prior to the following Distribution Date on the same schedule set forth above.

(vi) *Early Termination Due to an Optional Redemption, a Tax Redemption or a liquidation following an Event of Default under the Indenture*

Notwithstanding Section 6(e) of the Agreement to the contrary, in the event of an Optional Redemption, Tax Redemption or a liquidation following an Event of Default under the Indenture, all amounts payable with respect to the Transactions made under this Master Confirmation and under the Master Hedging Confirmation on any Early Termination Date under Section 6(e) of the Agreement shall be determined as follows:

(i) If the redemption has been requested by the Noteholders or Preference Shareholders pursuant to the Indenture or if the redemption is to occur on the Accelerated Maturity Date, the Seller shall, on or prior to 12:00 p.m., New York time, on the tenth Business Day prior to the related Swaps Liquidation Date provide a written notice to the Buyer requesting that the Buyer specify the Swap Termination Payment which the Buyer would pay to the Seller or the Swap Termination Payment that it would require that the Seller pay to the Buyer (calculated as if the Seller were the Defaulting Party or Affected Party) if all obligations of the parties with respect to the Transactions under this Master Confirmation were to terminate on the related Swaps Liquidation Date (which payment shall exclude Unpaid Amounts). The Buyer's calculation of the Swap Termination Payment shall (x) take into account the possibility (i) that there are Unsettled Credit Events for which the Physical Settlement Date will not occur on or prior to the Swaps Liquidation Date and (ii) that a Credit Event may occur on or prior to the Swaps Liquidation Date and (y) specify all Designated Unpaid Amounts. The Buyer shall deliver notice to the Seller specifying such Swap Termination Date and the Designated Unpaid Amounts on or prior to 5:00 p.m., New York time, on such fifth Business Day prior to the related Swaps Liquidation Date;

(ii) If the Optional Redemption or the Tax Redemption has been requested by the Buyer, the Buyer shall, on or prior to 5:00 p.m., New York time, on the fifth Business Day prior to the related Swaps Liquidation Date provide a notice to the Seller of the Designated Unpaid Amounts payable to it (including Unpaid Amounts) or payable to the Seller on or prior to the Distribution Date on which the Optional Redemption or Tax Redemption shall occur, and no other Swap Termination Payment shall be due by either party; and

(iii) Whether the Swap Termination Payment is calculated pursuant to (i) or (ii) above, if any Swap Termination Payment (including the Designated Unpaid Amounts) payable to the Seller, together with other Available Redemption Funds (reduced by any Swap Termination Payment and Designated Unpaid

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Amounts payable by the Seller), would be at least equal to the Total Senior Redemption Amount, the Seller or the Buyer shall pay (as applicable) such Swap Termination Payment and Designated Unpaid Amounts on the Swaps Liquidation Date and, upon such payment, all obligations of the parties with respect to the Transactions under this Master Confirmation shall terminate on and as of such Swaps Liquidation Date. In no event shall the Transactions be terminated or any Swap Termination Payment be due from the Seller if the notice of redemption has been withdrawn pursuant to Section 9.2 of the Indenture or the Collateral is not liquidated pursuant to Section 5.5 of the Indenture.

(vii) *Early Termination Due to a Mandatory Redemption*

Notwithstanding Section 6(e) of the Agreement to the contrary, in the event of a Mandatory Redemption, all amounts payable with respect to the Transactions made under this Master Confirmation and under the Master Hedging Confirmation on any Early Termination Date under Section 6(e) of the Agreement shall be determined as follows:

In the event that the Mandatory Redemption is a result of (i) an Event of Default or a Termination Event where the Seller is the Defaulting Party or an Affected Party or (ii) a Termination Event pursuant to Section 5(b)(i) or 5(b)(ii) where the Buyer or the Seller (or both) is the Affected Party:

(i) By 12:00 p.m. on the fifth Business Day prior to the related Swaps Liquidation Date, the Buyer shall notify the Trustee of the Swap Termination Payment which the Buyer would pay to the Seller or the Swap Termination Payment that it would require that the Seller pay to the Buyer and the Designated Unpaid Amounts if all obligations of the parties with respect to the Transactions under this Master Confirmation were to terminate on the related Swaps Liquidation Date (which amount shall exclude payments with respect to the Transactions under this Master Confirmation that are subject to Unsettled Credit Events for which an amount equal to the Holdback Amount shall be held in the Collateral Account until the Notice Delivery Period Expiration Redemption Date and each date on which a Physical Settlement Amount has been determined).

(ii) The Seller or the Buyer shall pay (as applicable) such Swap Termination Payment and any Designated Unpaid Amounts on the Swaps Liquidation Date and, upon such payment, all obligations of the parties under the Transactions under this Master Confirmation (other than Transactions subject to an Unsettled Credit Event for which a Holdback Amount is established) shall terminate on and as of such Swaps Liquidation Date.

In the event that the Mandatory Redemption is a result of an Event of Default or a Termination Event where the Buyer is the sole Defaulting Party or sole Affected Party (other than under Section 5(b)(i) or 5(b)(ii)), the amount payable on the Swaps Liquidation Date will be equal to (A) the Termination Currency Equivalent of the Unpaid Amounts owing to the Seller with respect to the Transactions under the Master Confirmation less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Buyer with respect to the Transactions under the Master Confirmation. Subject to Part 5(8) of the Schedule to the Agreement, if that amount is a negative number, the Seller will pay the absolute value of that amount to the Buyer and if it is a positive number, the Buyer will pay it to the Seller.

The Buyer and the Seller may modify the procedures described above in Section 7(e), (f) and (g) from time to time, upon written notice to the Trustee, without the consent of Noteholders or Preference Shareholders.

Notwithstanding the foregoing, in the event that, pursuant to the Total Return Swap, the Seller can only obtain payment under the Total Return Swap on the Initial Redemption Date, the Seller shall pay the Swap Termination Payment and Designated Unpaid Amounts due to the Buyer or the Eligible Dealer on the Initial Redemption Date, rather than on the Swaps Liquidation Date.

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(viii) *Payment on Closing Date*

On the Closing Date, the Buyer shall pay to the Seller, with respect to any Transaction having an Effective Date prior to the Closing Date, the Fixed Amounts payable from such Effective Date to but excluding the Closing Date.

IX. Offices:

The Office of Seller for each Transaction is: As specified in the Agreement.

The Office of Buyer for each Transaction is: As specified in the Agreement.

X. Notice and Account Details:

MLI Payment Details:

Deutsche Bank Trust Americas, New York, New York (ABA 021001033)

FAO: Merrill Lynch International, London

Acct: 00-882277

ABA: 021-001-033

MLI Notice Details:

Copy to:

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
Attention: Manager, Fixed Income Settlements
Facsimile No.: +44 20 7867 2004
Telephone No.: +44 20 7867 3769

with copy to:
ABS Trading New York
Merrill Lynch & Co.
4 World Financial Center

New York, New York 10080
Attn: Scott Soltas
Tel: 212-449-9001
Fax: 212-449-3247

with copy to: Debt Counsel
Merrill Lynch & Co.
4 World Financial Center
New York, New York 10080
Attention: Swaps Legal
Facsimile No.: (212) 449 6993

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Counterparty Payment Details:

LaSalle Bank National Association
Chicago, Illinois
ABA # 071000505
A/C: 2090067
BNF Name: LaSalle Trust
BNF Address: 135 South LaSalle Street, Chicago, ILL.
FC: Khaleej II CDO
A/C# 710506

Counterparty Notice Details:

Copy to:

LaSalle Bank National Association
135 LaSalle Street
Suite 1625
Chicago, Illinois 60603
Attention: CDO Trust Services Group—Khaleej II CDO, Ltd.
Fax: (312) 904-0524
Tel: (312) 904-1970

Copy to:

Khaleej II CDO, Ltd.
c/o Maples Finance Limited
P.O. Box 1093 GT
Queensgate House
Grand Cayman, Cayman Islands
Attention:
Fax: (345) 945-7099
Tel: (345) 945-7100

Copy to:

ACA Management, L.L.C.
140 Broadway
47th Floor
New York, New York 10005
Attention: Executive Vice President—Structured Finance
Fax: (212) 375-2127
Tel: (212) 375-2000

With a copy to the attention of General Counsel
Fax: (212) 375-2302
Tel: (212) 375-2000

The Buyer and the Calculation Agent acknowledge and agree that the Collateral Manager may deliver on behalf of the Seller any notice which the Seller is authorized to give hereunder.

XI. Additional Definitions and Amendments to the Credit Derivatives Definitions

(i) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

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(ii) (1) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "or the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", collateral administrator, originator, manager, arranger, servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof, (iii) inserting after the words "paying agent for an Obligation" the phrase " *provided* that if the Buyer is the Notifying Party, the Buyer or an Affiliate of the Buyer (a "**Buyer Entity**") is acting in such capacity and such Buyer Entity is the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless such Buyer Entity also delivers an officer's certificate executed by a managing director (or other substantively equivalent title) of such Buyer Entity" and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information that reasonably confirms any of the facts relevant to the determination that a Credit Event described in a Notice of Physical Settlement has occurred and that has been published in any report of a nationally recognized rating organization."

(2) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) (a) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (b) inserting in lieu thereof the words "Exercise Amount," (ii) deleting the words "on or prior to the Physical Settlement Date" in the first sentence thereof and (iii) adding "on or prior to the Physical Settlement Date, or, if the Physical Settlement Period ends on or before the Initial Redemption Date, on the first Distribution Date on or after the end of the Physical Settlement Period" after the phrase "specified in the Notice of Physical Settlement" in the first sentence thereof.

(3) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

(iii) For the purposes of each Transaction only, the following terms have the meanings given below:

"**Actual Principal Amount**" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, payment on such day by or on behalf of the issuer of an amount in respect of principal (excluding any capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"**Aggregate Implied Writedown Amount**" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"**Certificate Balance**" means the certificate balance in a trust which pays interest at a certificate rate and that Underlying Instruments of which do not provide for events of default.

"**Current Factor**" means the factor of the Reference Obligation as specified in the most recent Servicer Report; *provided* that if the Current Factor is not specified in the most recent Servicer Report, the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the Servicer Report over (ii) the Original Principal Amount.

"**Current Period Implied Writedown Amount**" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(1) zero; and

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(2) the product of:

(a) the Implied Writedown Percentage; and

(b) the greater of:

zero; and

the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recently dated Servicer Report available as of such day), calculated based on the face amount of the assets in such pool, whether or not any such asset is performing.

"**Distressed Ratings Downgrade**" means that the Reference Obligation: (i) if publicly rated by S&P and Moody's on the Effective Date, the rating of such Reference Obligation is downgraded to "CCC--" or lower (or "CC" or lower in the case of a CDO Security) by S&P and "Ca" or lower by Moody's (and, unless the rating from Moody's is "C" or lower, at least six months have elapsed since the downgrade to "Ca" by Moody's and such rating has not been restored to a rating that is at least "Caa" during such six-month period); (ii) if publicly rated by S&P and not publicly rated by Moody's on the Effective Date, the rating of such Reference Obligation is downgraded to "CCC-" or lower (or "CC" or lower in the case of a CDO Security) by S&P; (iii) if publicly rated by Moody's and not publicly rated by S&P on the Effective Date, the rating of such Reference Obligation is downgraded to "Ca" or lower by Moody's (and, unless the rating from Moody's is "C" or lower, at least six months have elapsed since the downgrade to "Ca" by Moody's and such rating has not been restored to a rating that is at least "Caa"); or (iv) if publicly rated by Fitch and not publicly rated by either S&P or Moody's on the Effective Date, the rating of such Reference Obligation is downgraded to "CC" or lower by Fitch.

"**Effective Maturity Date**" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"**Exercise Amount**" means, an amount to which a Notice of Physical Settlement applies equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the Physical Settlement Date and (ii) the Current Factor. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount.

"**Exercise Percentage**" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement divided by an amount equal to (i) the Initial Face Amount minus (ii) the aggregate of the sum of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

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"**Expected Principal Amount**" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any limited recourse provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"**Failure to Pay Principal**" means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; *provided* that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

"**Final Amortization Date**" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"**Fitch**" means Fitch Ratings or any successor to the rating business thereof.

"**Implied Writedown Amount**" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"**Implied Writedown Percentage**" means (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"**Implied Writedown Reimbursement Amount**" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"**Indenture**" means the indenture, dated as of September 22, 2005, among the Seller, the Trustee and Khaleej II CDO LLC.

"**Legal Final Maturity Date**" means the date specified in the Letter of Execution (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), *provided* that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

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"**Maturity Extension**" means an extension by or on behalf of the issuer of the Legal Final Maturity Date on or after the Effective Date, that is effected by an amendment to the Underlying Instruments occurring on or after the Effective Date.

"**Moody's**" means Moody's Investors Service, Inc. or any successor to the rating business thereof.

"**Notice Delivery Period**" means, notwithstanding anything to the contrary in Section 1.9 of the Credit Derivatives Definitions, the period from and including the Effective Date to and including the date that is fourteen calendar days after the Termination Date, provided that the Notice Delivery Period will terminate with respect to a Transaction on the Business Day immediately preceding the Termination Date, unless the Buyer delivers to the Seller written notice by 5:00 p.m. New York time on such Business Day to extend the Notice Delivery Period to the date that is 14 calendar days after the Termination Date, specifying that the Buyer has made a preliminary determination that a Credit Event may have occurred with respect to such Transaction.

"**Outstanding Principal Amount**" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance or Certificate Balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance or Certificate Balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance or Certificate Balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance or Certificate Balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition).

For avoidance of doubt, the "Outstanding Principal Amount" shall not include any portion of the principal balance of the Reference Obligation that is attributable to deferred, capitalized or "pay-in-kind" interest.

"**Pari Passu Amount**" means, as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance and/or Certificate Balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking *pari passu* in priority with the Reference Obligation.

"**PIK Reference Obligation**" means a Reference Obligation which is specified in the Letter of Execution to be a PIK Reference Obligation.

"**PIK Reference Obligation Event**" means, with respect to a PIK Reference Obligation, that (a) an Unreimbursed Deferred Interest Amount is determined by the Calculation Agent to have existed on at least (i) 24 consecutive Reference Obligation Payment Dates if the Reference

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Obligation Payment Dates occur monthly, 8 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur quarterly or 4 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur semiannually, and such PIK Reference Obligation was rated "A2" or higher by Moody's, "A" or higher by S&P (if rated by S&P) or "A" or higher by Fitch (if rated by Fitch) on the Effective Date, or (ii) 40 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur monthly, 14 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur quarterly or 7 consecutive Reference Obligation Payment Dates if the Reference Obligation Payment Dates occur semiannually, and such PIK Reference Obligation was not rated "A2" or higher by Moody's (if rated by Moody's), "A" higher by S&P (if rated by S&P) or "A" or higher by Fitch (if rated by Fitch) on the Effective Date, and (b) such Unreimbursed Deferred Interest Amount is at least USD 50,000 in aggregate.

"**Previous Period Implied Writedown Amount**" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"**Principal Payment**" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"**Principal Payment Amount**" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"**Principal Shortfall Amount**" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"**Principal Shortfall Reimbursement**" means, with respect to any day, the payment by or on behalf of the issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

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"**Principal Shortfall Reimbursement Amount**" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"**Principal Shortfall Reimbursement Payment Amount**" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, *provided* that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"**Reference Obligation Calculation Period**" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

"**Reference Obligation Coupon**" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment."

"**Reference Obligation Payment Date**" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"**Senior Amount**" means, as of any day, the aggregate outstanding principal balance and/or Certificate Balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"**Servicer**" means any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"**Servicer Reports**" means periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"**Standard & Poor's**" means Standard & Poor's Rating Services, a division of McGraw-Hill Companies, Inc. or any successor to the rating business thereof.

"**Standard Terms**" means the Pay As You Go Confirmation published by ISDA on June 21, 2005, as amended from time to time by ISDA, and appropriate to the applicable Reference Obligation.

"**Swap Termination Payment**" means an amount payable by the Buyer or the Seller, as applicable, equal to the Loss in respect of the Transactions governed under this Master CDS Confirmation.

"**Swaps Liquidation Date**" means any date on which the Transactions governed under this Master Confirmation are terminated in full pursuant to any of the liquidation procedures set forth

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in Part 4 hereof; provided that in the case of an Auction Call Redemption, Optional Redemption, Tax Redemption, or Mandatory Redemption, such date shall be the date specified by the Trustee, which shall be no later than the second Business Day prior to the related Redemption Date; and in the case of an Event of Default, such date shall be the date specified by the Trustee, which shall be no later than the second Business Day prior to the Accelerated Maturity Date.

"**Twelve-Month Period**" means, on each Reference Obligation Payment Date on or after the 360th day after the applicable Writedown occurred, the immediately preceding 360-day period.

"**Underlying Assets**" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"**Underlying Instruments**" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"**Unreimbursed Deferred Interest Amount**" means, for any date of determination, the sum of the Interest Shortfall Amount on each Reference Obligation Payment Date plus interest in respect of such sum for each day prior to such date of determination at a rate equal to the Reference Obligation Coupon in effect on such date, with interest being compounded on each Reference Obligation Payment Date, minus all reimbursements of each such Interest Shortfall Amount and all interest paid thereon pursuant to Underlying Instrument. For this purpose, any reimbursement of an Interest Shortfall Amount shall be deemed to be applied first to the accrued interest on the sum of the Interest Shortfall Amounts and then to reimburse the most recent Interest Shortfall Amount.

"**Writedown**" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (howsoever described in the Underlying Instruments) to the Reference Obligation resulting in a reduction of the current interest payable on the Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"**Writedown Amount**" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

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"**Writedown Reimbursement**" means, with respect to any day, the occurrence of either:

(i) a payment by or on behalf of the issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (howsoever described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"**Writedown Reimbursement Amount**" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"**Writedown Reimbursement Payment Amount**" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, *provided* that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

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This Master Confirmation may be executed in several counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

Yours sincerely,

MERRILL LYNCH INTERNATIONAL

By:_____
Name:
Title:

The Seller, acting through its duly authorized signatory, hereby agrees to, accepts and confirms the terms of the foregoing as of the Effective Date.

KHALEEJ II CDO, LTD.

By:_____
Name:
Title:

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Interest Shortfall Cap Annex

If Interest Shortfall Cap is applicable, then the following provisions will apply:

Interest Shortfall Cap Basis:	Fixed Cap
Interest Shortfall Cap Amount:	The Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred.
Interest Shortfall Reimbursement Payment Amount:	With respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of: (a) zero; and (b) the amount equal to: (i) the product of: (A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and (B) the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus (ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

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provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; *provided, however*, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such

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Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Amount:

With respect to any Additional Fixed Amount Payment Date falling on a Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Amount in respect of such Fixed Rate Payer Payment Date. The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) the relevant Cumulative Interest Shortfall Payment Compounding Factor;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

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With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; *provided, however*, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

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Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, *however*, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, *however*, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Rate Source: USD-LIBOR-BBA

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Form of Letter of Execution[10]

Merrill Lynch International ("**MLI**") and Khaleej II CDO, Ltd. (the "**Counterparty**") have entered into a Credit Derivative Transaction. MLI and Counterparty hereby agree that such Transaction shall be subject to the Agreement dated as of September 22, 2005 and the Master Confirmation dated as of September 22, 2005 between us. The terms contained herein, together with the Master Confirmation, shall constitute a Confirmation. In the event of any inconsistency between the Master Confirmation and this Letter of Execution, this Letter of Execution shall govern.

MLI Reference Number:	See attached spreadsheet
Effective Date:	See attached spreadsheet
Reference Entity:	See attached spreadsheet
Reference Obligation:	The obligation identified as follows: Issuer: See attached spreadsheet Guarantor or Insurer: See attached spreadsheet Obligation: See attached spreadsheet CUSIP/ISIN: See attached spreadsheet Legal Final Maturity Date: See attached spreadsheet Reference Obligation Coupon[11]: See attached spreadsheet Initial Factor: See attached spreadsheet Original Principal Amount: See attached spreadsheet Reference Policy: See attached spreadsheet
Initial Face Amount:	See attached spreadsheet
Fixed Rate (per annum):	See attached spreadsheet
PIK Reference Obligation:	See attached spreadsheet
Specified Type:	See attached spreadsheet
S&P Rating:	See attached spreadsheet

MERRILL LYNCH INTERNATIONAL

_____

By:_____

KHALEEJ II CDO, LTD.

_____

By:_____

[10] There can be one for each trade or a schedule for a group of trades.
[11] Including any stated cap.

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PRINCIPAL OFFICES OF THE CO-ISSUERS

Khaleej II CDO, Ltd.
c/o Maples Finance Limited
P.O. Box 1093 GT
Queensgate House
Grand Cayman, Cayman Islands

Khaleej II CDO LLC
c/o Puglisi & Associates
850 Library Avenue
Suite 204
Newark, Delaware 19711

TRUSTEE, PAYING AGENT, NOTE REGISTRAR AND TRANSFER AGENT AND PREFERENCE SHARE PAYING AGENT

LaSalle Bank National Association
135 South LaSalle Street
Suite 1511
Chicago, Illinois 60603

LISTING AGENT IN IRELAND

McCann FitzGerald Listing Services Limited
2 Harbourmaster Place
International Financial Services Centre
Dublin 1, Ireland

PAYING AGENT IN IRELAND

Custom House Administration and Corporate Services Limited
25 Eden Quay
Dublin 1
Ireland

CISX SPONSOR

Maples Finance Jersey Limited
Le Masurier House
La Rue Le Masurier
St. Helier, Jersey JE2 4YE
Channel Islands

PREFERENCE SHARE REGISTRAR

Maples Finance Limited
P.O. Box 1093 GT
Queensgate House
Grand Cayman, Cayman Islands

PREFERENCE SHARE TRANSFER AGENT

LaSalle Bank National Association
135 South LaSalle Street
Suite 1511
Chicago, Illinois 60603

LEGAL ADVISORS

To the Co-Issuers

As to New York Law
Schulte Roth & Zabel LLP
919 Third Avenue
New York, New York 10022

As to Cayman Islands Law
Maples and Calder
P.O. Box 309GT, Ugland House
South Church Street
Grand Cayman, Cayman Islands

To the Initial Purchaser

Clifford Chance US LLP
31 West 52nd Street
New York, New York 10019

To the Collateral Manager

Schulte Roth & Zabel LLP
919 Third Avenue
New York, New York 10022

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Khaleej II CDO, Ltd.
Khaleej II CDO LLC

U.S.$24,375,000 Class A First Priority Secured Floating Rate Notes Due 2040
U.S.$41,250,000 Class B Second Priority Secured Floating Rate Notes Due 2040
U.S.$20,625,000 Class C Third Priority Secured Deferrable Floating Rate Notes Due 2040
U.S.$24,375,000 Class D Fourth Priority Secured Deferrable Floating Rate Notes Due 2040
40,500 Preference Shares with an Aggregate Liquidation Preference of U.S.$40,500,000

Backed by a Portfolio of Credit Default Swaps

OFFERING CIRCULAR

Dated April 20, 2006

Merrill Lynch & Co.

Gulf Investment Corporation
(as Placement Agent solely with respect to offers and sales of Offered Securities outside the United States)

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